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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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مركز من الاحوال

Why Canada's PM is on the defensive, Page 5

World news — Business summary

Pretoria hint on power sharing

A South African Cabinet minister said yesterday that a multiracial National Council to be set up by the white-led government would be a starting point for power-sharing with blacks.

Chris Heunis, Minister of Constitutional Development and Planning, gave parliament details of draft legislation to be published today outlining the aims of the council, which include negotiating a new constitution.

Meanwhile, in Pietersburg, extreme right-wing whites planning a show of strength with the ruling National Party scuffled as hundreds of people besieged a hall where Pik Botha, the Foreign Minister was due to speak. Page 4

Trade warning

French Agriculture Minister François Guillaume warned the US not to escalate the trade war brewing between Washington and western Europe over the entry of Spain and Portugal into the European Community.

Ulster bomb kills 3

Two policemen and a soldier were killed by a suspected IRA bomb at Crossmaglen in Northern Ireland.

Inquiry continues

A West German prosecutor said legal proceedings against Chancellor Helmut Kohl in Bonn would continue, despite a decision by officials in Koblenz to drop a second perjury investigation.

Economy disrupted

A strike by Spanish dock workers called in protest at plans to privatise the sector is disrupting economic activity, business sources said.

Opec review

Five Opec oil ministers assembled in Riyadh to review co-operation with non-Opec producers, including Norway, which signalled its willingness to meet officials of the 13-nation group.

Punjab killings

Paramilitary forces patrolled the Sikh holy city of Amritsar to head off Hindu-Sikh clashes after Sikh extremists killed 11 people, nine of them Hindus.

Beirut shelling

Rival Moslem and Christian forces shelled residential areas of Beirut yesterday, bringing the death toll in the last 24 hours to 33. Page 4

Health strike

Some 10,000 Swedish health-service workers began an indefinite strike as unions defied government attempts to negotiate minimal pay rises for their 1.0m members in the public sector.

Ambassador held

Ethiopia's ambassador to the UN, Bernhanu Dinka, has been detained for alleged involvement in the embezzlement of international famine-relief funds, diplomats in Addis Ababa said.

Officials warned

Soviet Politburo member Yegor Ligachev has warned lazy and corrupt officials not to bank on a relaxation of the Kremlin's campaign for social and economic renewal.

Faulty goods

A third of goods made in China were shoddy and factory managers should be dismissed if they did not improve quality, the New China News Agency said.

Libya bans English

Libya has banned the teaching of English at all levels of education and replaced it with Russian, the official news agency Jana said.

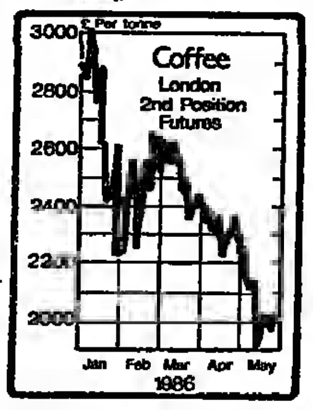
Amsterdam bourse surges to record

AMSTERDAM bourse hit a new high in post-election enthusiasm fuelled by strong overseas buying and a firmer dollar. The ANP-CBS General index surged 18.2 to 288.8 and volume at Fl 2.4bn ($952m) was a record. Internationals, banks and insurers led the rally. Editorial comment, Page 26; Triumph for Lubbers, Page 26; Market report, Page 50

WALL STREET: At 3pm the Dow Jones industrial average was 24.68 higher at 1,799.85. Page 50

TOKYO: Stocks rose with biotechnology and chemical issues especially sought. The Nikkei average added 109.19 to 15,917.33. Page 50

LONDON: Equities rose for the fourth consecutive session while gilts fell back late in the day. The FT Ordinary share index added 3.8 to 1,316.3 and the FT-SE 100 rose 6.9 to 1,598.8. Page 50



COFFEE prices in London rose sharply on news that Brazil was closing May export registrations and cancelling coffee with roasters. Later trading cut the day's rise to £21 a tonne in the July position, which closed at £2,013.50 a tonne. Page 42

TIN: Eleven creditor banks of the International Tin Council launched a final attempt to settle claims without resorting to legal action. Page 42

DOLLAR rose in London to DM 2.279 (DM 2.242); SFr 1.8905 (SFr 1.8645); FFr 7.2575 (FFr 7.1425) and Y169.25 (Y168.7). On Bank of England figures, the dollar's exchange-rate index rose from 115.4 to 116.4. Page 43

STERLING fell in London to $1.493 ($1.517) but rose to DM 3.4025 (DM 3.4). It fell to SFr 2.8225 (SFr 2.83) and Y252.75 (Y256.0), but was unchanged at FFr 10.835. The pound's exchange-rate index fell to 76.0 from 76.4. Page 43

GOLD rose $1.50 an ounce in the London bullion market to close at $341.00. It also rose in Zurich to $340.55 ($338.90). In New York, the Comex June settlement was $342.60. Page 42

FRANCE'S trade deficit rose to a seasonally adjusted FFr 4.8bn ($670m) last month, with poorer performances in the manufacturing and food sectors bearing much of the blame. Page 3

MEXICO will seek a new debt agreement with its commercial bank creditors whether or not it establishes an economic stabilisation programme with the International Monetary Fund. Page 28

US: House of Representatives approved sweeping plans to toughen the country's trade laws as President Reagan stepped up criticism of the bill. Page 26

CITICORP, New York-based banking group, has launched a $680m or $19-a-share cash tender offer for Quotron, Los Angeles-based electronic information group. Page 27

BENETTON, Italian clothing company, which is to go public on the Milan bourse, plans to diversify into financial services in Italy and abroad. Page 27

RENAULT, troubled French state-owned car group, plans to end financial support next year for its loss-making factory automation and robotics subsidiary. Page 27

Delors reveals EEC plan to liberalise capital movements

MR JACQUES DELORS, president of the European Commission, yesterday announced details of a two-phase plan to liberalise all remaining exchange controls on capital movements in the EEC by 1992, writes Quentin Peel in Brussels.

The programme, to be presented to Community finance ministers next month, would enable investors to buy and sell stocks and shares freely in the 12 member-states, and likewise allow companies, venture-capital concerns and similar organisations to raise finance in whichever EEC market suited them best.

The European Commission proposes to make it compulsory for all the member-states to liberalise such transactions, and not merely voluntary as it is now.

At the same time, it is proposing to remove the exemption allowing France to impose wider exchange controls, after the latest liberalisation moves by the French Government. Italy, which enjoys a similar exemption, has agreed that it should be reduced in scope but not yet abolished.

The programme announced yesterday by Mr Delors, and outlined by him last week to EEC central bank governors in Basle, would seek in a second phase to liberalise all monetary and financial flows in the Community, not only those related to commercial transactions.

That would allow individuals to have bank accounts in any Community currency, to save or borrow, or have a mortgage, across national frontiers. There would be no restrictions on the use of credit cards or Eurocheques in different member-states.

Mr Delors' plan has to be approved by the 12 finance ministers and is certain to be examined at length by national treasuries and central banks before they do so. He said yesterday it had been "welcomed enthusiastically" by the governors last week.

The greatest effects of the first phase would clearly be felt in France, Italy, Ireland and Greece, as well as Spain and Portugal, where exchange controls are still widely in force, and exemptions have been granted from current EEC rules on capital movements.

The exemptions for Italy and Ireland run until December 1987, but Mr Delors said the latest French relaxation of exchange controls last week meant that France no longer needed to use the safeguard clause.

Current EEC regulations require free movement of capital for transactions such as direct investments, dealings in quoted securities, trade credits and personal capital movements, except for those with exemptions.

The new plan would include hitherto voluntary items – dealings in unquoted securities, the flotation of foreign securities on domestic markets, long-term trade credits and long and medium-term financial loans and credits – in the compulsory list.

Mr Delors said the move was a key part of the Commission's programme to create a genuine Common Market by 1992. "It is scarcely conceivable that a single great market can come about without liberalising capital movements," he said.

He said safeguard clauses would remain to allow member-states to introduce exchange controls when suffering severe balance-of-payments difficulties. The first phase of the plan none the less seeks the "progressive dismantling" of such controls.

The tightening of Italy's exemption follows the decision by the Italian Government to lower its requirement on residents to lodge an interest-free bank deposit before purchasing foreign securities, from 40 per cent of the value to 25 per cent.

Mr Delors said capital liberalisation left several questions to be answered, including whether it would automatically entail freedom of services and freedom of establishment for financial institutions.

The central-bank governors also questioned how non-EEC transactions would be affected and whether faster progress towards tax harmonisation in the Community would not be necessary, he said.

NatWest gives lead to British banks by cutting rates to 10%

BY GEORGE GRAHAM IN LONDON

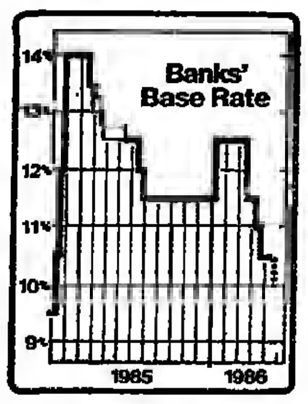
NATIONAL Westminster Bank yesterday cut its base lending rate by half a percentage point to 10 per cent. Other British banks are likely to follow suit today but building societies do not expect to lower their mortgage rates unless base rates drop further into single figures.

The cut is the fourth since the UK budget in March and leaves British interest rates at their lowest level since January 1985, when rates were increased by 4½ percentage points in a fortnight after uncertainty over oil prices had caused sterling to plunge in the foreign exchange markets.

NatWest's move came too late yesterday for the Bank of England to show approval in its money market dealings. The Bank's operations earlier in the week, however, had indicated that it saw room for a relaxation in interest rates and it is expected to ratify the cut in its dealings today.

The Bank had on Wednesday relieved a large shortage in the money markets by offering bill repurchase agreements at relatively easy interest rates and for short periods. Dealers at the discount houses and the clearing banks interpreted this as a signal that rates could move lower.

The authorities have over the last month sought to delay the progress to lower interest rate levels, as concern mounted over the rate of increase of the UK's labour costs and the rapid growth in the money supply. But yesterday's cut is seen as a prudent adjustment to the fall in the inflation rate to 3 per cent announced last Friday.



While there has been some concern over recent evidence of a slowdown in the UK economy in the first quarter, growth prospects for the second half of 1986 are already felt in Whitehall to have received a boost from the increase to real incomes and from the two cuts in mortgage rates so far this year, which should stimulate consumer spending.

NatWest's base rate cut, which takes effect today, nevertheless caught other banks by surprise when it was announced late yesterday afternoon.

In some bank treasuries, dealers had been anticipating a further delay before interest rates came down. But they are still expected to follow NatWest this morning, although they may be tempted to delay until next week to take advantage of high interest rates over the UK bank holiday weekend.

The building societies, however, said yesterday that they were not contemplating a further cut in their mortgage rates beyound the move to 11 per cent from June 1 which they had already announced in the wake of the last base rate cut in April.

Mr David Gilchrist of the Halifax Building Society said that a base rate of 10 per cent only left room for shaving a quarter of a percentage point off mortgage rates – which was not enough to make a cut worthwhile. He hoped that base rates might fall into single figures and give further scope for reductions.

Building Societies Association said last week that societies had approved a record £3.6bn ($5.4bn) of new home loans in April. Preliminary indications from the leading societies are that approvals could reach £4bn in May in a lending boom fuelled by lower toterest rates.

Lower interest rates led to a drop in the value of sterling in the foreign exchanges. By the London close it had dropped nearly 2½ cents to $1.493. Against the D-Mark, it showed a ¼ pfennig gain to DM 3.4025 in London but began to fall in New York.

The London stock market, however, gained, with the FT Ordinary share index rising 3.8 to 1,316.3. One stockbroker commented: "NatWest probably felt it owed the market something after last week's rigbts issue" – at £714m the largest yet in Britain, news of which resulted in a sharp market reversal.

Currencies, Page 43

Thatcher pledges further tax cuts

By Peter Riddell in London

MRS MARGARET THATCHER, the British Prime Minister, last night firmly pledged that her Government would go on reducing income tax.

Her remarks, to the annual dinner of the Confederation of British Industry (BI) in London, were made after recent speeches by some of her senior ministers urging increases in public spending on social programmes, including education and the health services.

She emphasised the Government's record in reducing taxes. "It is only too easy for governments to spend taxpayers' money so generously that taxpayers are left with too little to be generous so their own families." She then concluded that she had no doubt that the Government should "aim to go on reducing income tax."

Earlier, during Prime Minister's questions in the House of Commons, Mr Tim Yeo, a Conservative backbench MP, had reflected the view of some backbench colleagues and several ministers in warning that there were "a very large number of people who think that the need to improve the quality of public services is possibly even greater than the need to make further cuts in the basic rate of income tax."

Mrs Thatcher, in reply, said spending had to be held within overall constraints. She went on to argue that there were "many people on average earnings, or below, who were asking for increased pay because their net takehome pay was, they thought, too low. The way to get up net takehome pay without adding to industrial costs is to reduce the standard rate of income tax."

Continued on Page 26

Top salary increases, Page 9

US considers UK as chemical weapons base

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN BRUSSELS

CHEMICAL weapons could be stored at US bases in Britain and deployed with British and other Nato European forces in West Germany at a time of crisis, under contingency plans which the US Government is expected to complete soon.

The plans became known after yesterday's decision by Nato defence ministers to aprove new chemical weapons production by Washington and are already understood to have been discussed by US and European military planners.

The contingency plans would be brought into operation only in tim eof crisis in Europe, when militar ylanners and politicians judge Nato to be on the verge of war.

In Brussels yesterday, Mr George Younger, the British Defence Secretary, was emphatic that the British Prime Minister would both have a veto over the arrival of the weapons to Britain and over their possible use from British bases.

However, there were apparent differences between Mr Younger and Mr Caspar Weinberger, the US Defence Secretary, over the current state of the contingency plans, Mr Weinberger said the plans, which were the subject of consultation with Nato allies, would be completed shortly, while Mr Younger maintained that British ministers had not yet receivedc a request for such wartime basing of chemical weapons nor had been consulted on contingency plans overall.

The US sees considerable urgency in drawing up the plans, since Congress has insisted that production of new chemical weapons can only begin if the allies have approved it – and if the Administration is able to present to Congress a plan for deploying the weapons to defend the US and allied troops "in appropriate condigencies."

The first stage in meeting those two conditions was achieved yesterday, when defence ministers meeting in Brussels formally approved the so-called "force goals." Those give Washington the go-ahead to produce the new binary weapons – they are only lethal when two non-toxic substances are combined – at a plant in Pine Bluff, Arkansas.

Several countries, including the Netherlands, Norway and Denmark, objected to the decision as a whole, while others indicated that they could not accept deployment in their own countries. But their objections were written into the record of the meeting, rather than appearing in the published communiqué – which itself contains no explicit reference to the matter – as had been predicted.

Mr Weinberger said yesterday that he believed Congress would accept that Nato had now approved chemical weapon production.

However, the US would clearly like to have the contingency plans in a form to present to Congress very soon to meet the October deadline that Congress has set for releasing an initial $167m for the production of the weapons.

The US sense of urgency was not, however, reflected in yesterday's remarks by Mr Younger. The US contingency plans had not been presented to him and the US had not asked for facilities to deploy the new weapons, Mr Younger said.

Although he accepted that military planners had to have plans for every possible contingency, Britain's policy of neither producing chemical weapons itself nor deploy-

Continued on Page 26

BSN succeeds in battle for control of Générale Biscuit

BY DAVID HOUSEGO IN PARIS

BSN, the French food and drinks group, yesterday gained full control of Générale Biscuit, thus reinforcing its leadership in the French food market.

The new acquisition is the largest in the 15-year history of the group, which has moved out of glassmaking and into soft drinks, fresh milk products, pasta and beer.

The FFr 6.8bn ($942m) sales of Générale Biscuit – France's largest biscuit manufacturer and the third largest in the world – will give the BSN group a combined turnover of over FFr 35bn. Perrier, France's second-largest food and drink concern, has a turnover of FFr 10.5bn.

The takeover, which was opposed by Mr Claude-Noel Martin, the chairman of Générale Biscuit who is expected to retire from the group, is likely to be the prelude to further consolidation in the French food sector, which is now beginning to feel the pressure from recent takeover battles in the US and Britain.

BSN, which had already built up a 33 per cent stake in Générale Biscuit, confirmed its control by agreeing to purchase the remaining shares at FFr 2,285 a share or through a share swap involving four BSN shares for seven of Générale Biscuit. The cash offer puts a market capitalisation on Générale Biscuit of over FFr 3bn.

Mr Antoine Riboud, BSN's chairman, said that "the cash flow of BSN will now be available for the development of Générale Biscuit." BSN intends to integrate Générale Biscuit into its dried foods division.

Mr Riboud, in describing the circumstances of the takeover, said that BSN began planning the bid at the end of last year. That was at a time when "we saw other foreign food groups taking an interest in the company and said why not us?" Pillsbury, the US foods group, was among the large foreign companies believed to have been building up a stake in Générale Biscuit.

Mr Riboud denied however that BSN – which itself has been the object of persistent takeover rumours – was vulnerable to a bid. The need to protect itself through increasing its size has been put forward as a reason for BSN's move.

Mr Riboud said BSN made its takeover approach through Groupe Worms, the Paris investment bank, which had 35 per cent stake in Générale Biscuit. "We had very good relations with Groupe Worms and we proposed an alliance with them," Mr Riboud said.

Mr Claude Pierre-Brosselette, e managing partner in Groupe Worms, is also on the board of BSN and linked as well to Airflam, the French financial holding company of Mr Carlo de Benedetti, the Italian industrialist who is also chairman of Olivetti.

The tie-up has provoked speculation in Paris of an eventual deal between BSN and Mr de Benedetti who has been substantially enlarging his food interest. Mr Riboud yesterday played down the possibility of either an accord or a conflict between the two.

"I do not see why relations between us and Benedetti should be different from that of our relations with any other competitor," he said. "There is room for everybody."

CONTENTS

Palme murder inquiry set up

By Kevin Done in Stockholm

THE SWEDISH Government yesterday appointed a three-man judicial commission to investigate the circumstances surrounding the assassination of Mr Olof Palme, The Swedish Prime Minister, and the subsequent reactions of the Swedish authorities to the murder.

The Government has delayed the setting up of a full parliamentary commission of inquiry until a later stage, however, a move that immediately drew strong criticism from the opposition Conservative and Liberal parties.

Part of the commission's task will be to examine the way the police have conducted the hitherto fruitless three-month hunt for Mr Palme's assassin.

It could also investigate claims from Mr K. G. Svensson, the chief prosecutor, that the police have seriously violated the legal rights of one former suspect in the murder case, and that the police have seriously interfered in the work of the prosecutor's office.

Mr Svensson resigned from the case at the weekend having found it impossible to continue co-operation with Mr Hans Holmer, the Stockholm police chief, who is leading the investigation.

Mr Per-Erik Nilsson, the parliamentary ombudsman, who is to chair the judicial commission, said it would look at all aspects of the murder investigation.

The Justice Ministry has had an official present at police headquarters since the beginning of the investigation.

Asked if the Government's role in the police investigation would be examined, Mr Nilsson said: "Yes, in as far as it has had any impact on the criminal investigation."

Airlines shift stance on EEC common air policy

BY PAUL CHEESERIGHT IN BRUSSELS

ONLY transport ministers can devise an air policy for the European Community which would not be a poor alternative to the existing aviation industry regulations, the leading scheduled airlines declared yesterday.

The Association of European Airlines (AEA), which represents 20 flag carriers, in its first detailed reaction to a landmark judgment by the European Court of Justice last month, was pleading for an end to the uncertainty caused by a legislative vacuum.

The court said that the aviation industry is subject to the Community competition rules, but in the absence of a common air transport policy to implement them, there was a responsibility on the Commission and national courts to see the rules are observed.

The AEA fears that if action is taken in national courts or the Commission uses its legal powers then the market will become fragmented.

It has therefore dropped what at one stage appeared to be outright opposition to a change in the present system of regulation over fares and capacity based on a series of national bilateral agreements and come out in favour of a collective political approach.

Mr Karl-Heinz Nenmaister, secretary general of the AEA, said the Community council of transport ministers "is close to the bits and pieces of a common air policy."

But this optimism is not shared in Brussels official circles where it is noted that the tenor of discussion in working groups preparing for a meeting of transport ministers on June 19 appears to rule out the possibility of immediate decisions.

The European Commission, however, has threatened action against governments and airlines if there is no progress on setting up a common air policy by the end of June.

That is precisely what the AEA wants to avoid.

Referring to national implementation of the Community competition rules, which could provoke differences of approach among the 12, Mr Neumeister said, "I hope nothing will happen among national members this year."

By opting for action by the transport ministers, the airlines have in effect moved closer to the point of view of the European Commission which has been pushing for air liberalisation and rejected what it sees as "cosmetic" changes suggested by the airlines.

This follows from the Community procedures. The transport ministers can only implement a common policy on the basis of Commission proposals. But the Commission has threatened to withdraw its proposals if they are watered down too much by ministers.

Lufthansa results, Page 37

Britain given rare chance to lead in Europe

John Wyles reports on the opportunities and priorities of Britain's presidency of the European Community

A WEAKENING of the Franco-German axis offers Britain an nnusual opportunity to exercise leadership in the EEC when it takes over the presidency of the Community at the beginning of July.

Disagreements between Paris and Bonn over a number of issues mean that Britain can and should bring more direction to Community affairs, says Mr Simon May in a paper on the tasks of the British presidency discussed at o Centre for Policy Studies conference in London yesterday.

Mr May, who is deputy-secretary ganeral of the Action Committee for Europe, says that both France and Germany are suffering deep hesitations about the Community and their roles within it.

While France is more willing than ever to consider European solutions to its problems, it is increasingly doubtful about the role that the Community as such should play in them. Germany, by contrast, is more and more cautious about supporting Community policies because it is Bonn which must largely finance them. Tensions between the central government and the laender governments are a furthar inhibition on Bonn's EEC policies as is a growing national desire for self-reliance and a declining interest increating a common market in Europe.

During its six months in the persidency, the British Government will be responsible for organising and conducting Community business in the Council of Ministers. Its ability to launch new initiatives is severely limited by the weight of preordained business, from the need to pilot through the 1987 EEC budget to administering the Common Agricultural Policy.

But Mr May urges the Government to press hard for progress on:

- Furthering the development of the internal market,
- lightening the burden of regulations on business,
- reforming the Common Agricultural Policy,
- daveloping a common European position fnr the international trade talks due to start this antumn within the General Agreement on Tariffs and Trade. A more influential rolo for Europe should also be sought in the co-ordination of internatinnal monetary relations and exchange rates.

This might seem routine, said Mr May and it does not offer a full strategy for cutting unempolyment. Most of this task can only be accomplished at national level although it can be complemented by action at Community level aimed at co-ordinating economic measures and ensuring monetary stability, he claims.

Britain should try to achieve greater use of majority voting to push through internal market decisions. But it must also give more attention than the Community's existing programme does to opening up the public procurement of telecommunications equipment, says Mr May.

He urges Britain to take the initiative in developing greater monetary co-operation in the EEC.

"If the UK were to become a full member of the European Monetary System and if the new government in France does, as promised, takes steps to enhance the constitutional independence of the Banque de France and substantially liberalise capital movements, the stage may be set for a more far reaching institutionalisation of monetary co-ordination—and of a monetary discipline—in Europe," concludes Mr May.

Sir Geoffrey Howe, the British Foreign Secretary, has mada it clear this week that progress towards the internal market is a major priority for the British presidency, as is air transport deregulation, general business deregulation and agricultural reform.

**The European Community and the Task for the British Presidency in 1986. Simon May. Centre for Policy Studies, 8, Wilfred St, London SW1E 6PL. £1.90.*

Sensational financial case ends in acquittal

By Hilary Barnes in Copenhagen

ONE OF the most sensational cases of alleged financial malpractice in Denmark since the Second World War ended on a suitably upbeat note yesterday when the victim of many years of tribulation and trial, Mr Jan Bonde Nielsen, former chairman and majority shareholder in Copenhagen's Burmeister & Wain shipyard, was found not guilty of all charges by Copenhagen city court.

Mr Bonde Nielsen's triumph was matched only by the humiliation of the police special economic crime squad, which had invested enormous resources and prestige in bringing him to trial.

Mr Bonde Nielsen was charged with an offence akin to alleged fraud to the value of Kr 146m ($17.6m).

The prosecution alleged that when in 1978 he sold his B. & W. shares, held by his personal investment company, to Gredana, a listed investment company he also controlled, he did so for a price that he knew to be unrealistically high.

It was also alleged that he had ensured that the price of B. & W. shares on the Copenhagen stock exchange was jobbed up to an unrealistically high level. The alleged offences were said to have caused a loss of Kr 146m to Gredana shareholders. He was cleared on both counts.

Police investigations into the transactions began in 1979, but by the time police were ready to indict Mr Bonde Nielsen in 1981, with a court order for his arrest and remand in custody, he had moved to London.

Extradition proceedings were started but thrown out by a London magistrate. As the case was one of principle, it was on its way through the House of Lords when in 1984 Mr Bonde Nielsen agreed to return to Denmark to face trial as long as the police dropped the demand that he be held in custody.

That was a condition made by Mr Bonde Nielsen in 1981, when he said he was perfectly prepared to go for trial on charges of which he was innocent, but not if he was going to be held in custody for up to several years while the highly complex case was prepared.

Mr Bonde Nielsen, who left school to become a gardener, emerged from nowhere to take over B. & W. in 1974. It was the Rolls Royce of Danish engineering, but although run by the cream of the Danish managerial establishment in 1974 it was badly run-down and close to bankruptcy.

Mr Bonde Nielsen turned the group round and, up to 1978, made a success of B. & W. which was an unkind comment on those who had failed to run it properly before.

Waldheim accused by Israeli minister

THE international controversy surrounding Dr Kurt Waldheim, the leading candidate in Austria's presidential election, heightened yesterday with a senior Israeli minister saying that there was enough evidence linking him to Nazi atrocities in the Balkans to bring a prosecution against him if he were in Israel, writes Patrick Blum

Mr Yitzhak Modai, the Israeli Justice Minister, said in a radio interview that an investigation of Dr Waldheim's war-time past carried out by his ministry had come to the conclusion that "the evideoce certainly connects him if not directly and personally at least with lending assistance to these actions and that is enough."

In Vienna, Dr Waldheim's campaign spokesman said that the allegations were unfounded and "deplorable."

Mr Modai said there was no evidence that Dr Waldheim was directly involved in carrying out atrocities, but added "we have enough proof that he, in his capacity as an intelligence officer in the German Army in the Balkans, would pass on information and descriptions that be knew, by virtue of standards in the Nazi army, would and did lead to liquidation actions."

The investigation was carried out at the request of Mr Shimon Peres, the Israeli Prime Minister, and is expected to be concluded next week

EEC's ban on food imports 'arbitrary'

BY WILLIAM DULLFORCE IN GENEVA

THE BAN on food imports from East Europe imposed by the EEC after the accident to the Soviet nuclear reactor at Chernobyl was arbitrary and unjustified, Mr Fereno Furulyas, Hungary's deputy Minister for Foreign Trade, said yesterday.

The EEC's assertion that East European countries had refused to cooperative in controlling radiation levels was totally unfounded, Mr Furulyas told the council of the General Agreement on Tariffs and Trade (Gatt). Hungary had supplied the Community with radiation data oo a daily basis without being asked and the Commission had at no time suggested that the data was insufficient.

The Community had arbitrarily selected a group of countries within 1,000 kms of Chernobyl, ignoring the fact that winds carrying radioactive dust do not respect geography, the minister said.

The ban had been applied to products which made up half of Hungary's agricultural exports to the EEC and 15 per ceot of its total Exports to the Community. It had been imposed at a time when the Community itself held a high level of fresh fruit stocks, Mr Furulyas said.

His complaint to the Gatt council was supported by Poland and Czechoslovakia. They asked the council to recommend the immediate lifting of the ban.

Mr Tran van Thinh, the EEC ambassador, stressed that the ban was only temporary – it is due to expire at the end of May – but had been necessary because of the fears aroused among the peoples of Europe.

Brussels had lacked clear, irrefutable information with which it could reassure people. Hungary had been "extremely responsible" in supplying information on radiation but the Community had needed to verify some of the data.

Associated Press writes from Vienna: Policymakers for the International Atomic Energy Agency have reached a preliminary agreement on ways to make nuclear plants safer in the wake of Chernobyl, authorities said.

Italians will not abandon nuclear energy schemes

BY JAMES BUXTON IN ROME

THE ITALIAN Governmeot does not intend to abandon its nuclear eoergy programme nor to close down existing nuclear plants in the wake of the Chernobyl disaster, the inner-cabinet has decided.

But the Government favours holding a national conference on nuclear energy and wants there to be a "pause for reflection" while new safety standards for future nuclear plants are considered.

The decision means that Italy's three existing nuclear plants will stay open. This includes the Magnox plant at Latina, south of Rome, whose premature closure had been requested by the Socialist Party, which is part of the Government of Mr Bettino Craxi. The licence for the Latina plant is due to run out in 1992.

The construction of the only nuclear plant now under way, a 2,000 MW boiling water reactor plant at Montalto di Castro, north of Rome, will continue.

Procedures for starting work oo a plant at Trino Vercellese in Piedmoot should also continue.

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EUROPEAN NEWS

OECD urges Spain to keep lid on economy

BY DAVID WHITE IN MADRID

A CALL for Spain to avoid the temptation of loosening up its economic adjustment effort is made by the Organisation for Economic Co-operation and Development (OECD) in a report published today, just a month ahead of general elections.

This is despite the fact that Spain is seen as having reached "a clear turning point" in recovering from the crisis of the 1970s.

The combination of a very high unemployment and a strong balance of payments would normally justify a push for higher growth, the OECD says. But it urges Spain to concentrate instead on bringing wages and prices more into line with international trends.

The report, which forecasts higher annual growth of just under 3 per cent this year and next, together with buoyant investment and possibly a drop in unemployment, is generally interpreted as favourable to the present socialist administration, even though its growth predictions are marginally more modest than the Government's.

However, it describes the last two years' performance as "mixed." On the plus side, growth (2.1 per cent last year) has remained roughly on target, investment has recovered and the current external balance (in surplus since 1984) has improved beyond expectations. On the other hand, inflation has not come down enough, unemployment has hit record levels, and the state budget has suffered a "significant slippage." The Government sector, the report says, will continue in the next two years to absorb "an excessive share" of resources.

Inflation, boosted at the start of the year by the introduction of value-added tax, is seen coming down to 7 per cent by December. This is inside the Government's target of 8 per cent, the same as last year. But the report warns that Spain's disinflationary process seems likely to be "relatively slow, lagging behind that in the rest of the OECD area."

It places strong emphasis on keeping wage increases down, in order to face EEC competition and create the conditions for restoring a higher level of employment. Its forecasts show the jobless rate declining fractionally from a 1985 level of 21.9 per cent of the labour force.

Spain's current account surplus is seen rising from $3bn last year to just over $5bn this year, but declining to $4bn in 1987. Strong demand for imports, which are expected to increase at twice the rate of exports, threatens to bring a "substantial increase" in the trade deficit next year, but this should be partly offset by invisible earnings, the OECD says.

DAVID HOUSEGO ON PARIS'S NEW FINANCIAL REGIME

French economic juggling draws applause

CONNOISSEURS of the making of economic policy have been quietly lifting their glasses to Mr Edouard Balladur, the French Finance Minister. Over the last few weeks he appears to have got away with the difficult juggling act of conveying two very different and in some ways contradictory messages.

The first of these is that this conservative administration remains as wedded as the Socialists to holding down inflation and has reinforced this commitment through a standstill on public sector wages, cuts in public spending and a restrictive monetary policy. The instrument for putting this across was the March devaluation of the franc and the back-up measures that went with it.

The second message is that it also wants to inject more dynamism into the French economy through phasing out the restraints and rigidities that have been hampering French business.

This was the meaning of the major supply-side package of measures that Mr Jacques Chirac, the Prime Minister, and Mr Balladur announced last week, and which included a further lowering of French interest rates, more freedom for French companies to cut their workforces and greater leeway in managing their cash and foreign exchange positions through the further opening up of the financial and foreign exchange markets.

The combined impact of this two-tiered manoeuvre should be to provide as favourable a climate for a pick-up in investment - and hence eventually in new jobs - as French industry has known in recent years.

For though there has been a modest recovering in manufacturing investment during the last two years, overall fixed capital investment has been lagging behind the rest of Europe and still remains below 1980 levels.

The battle, however, is by no means won. The stimulatory measures carry with them inflationary risks at a time when the gap between France's inflation rate and that of West Germany is growing again.

The danger now with the relaxation of foreign exchange controls is that any slippage in the inflation rate will show up in transfers of funds abroad.

At the same time the Government cannot afford too long a delay in showing results in terms of investment and jobs. Unions have quickly taken on board that the bulk of the sacrifices in the strategy - in terms of wages, more labour market flexibility and still continuingly high levels of unemployment - are being borne by them.

Hence the warning to the Government over the weekend from Mr André Bergeron, the leader of the centrist Force Ouvriere and normally sympathetic to the Government, that it is committing "serious" errors.

Behind the unions stands President Francois Mitterrand, ever ready to exploit against a right-wing Government any social strains that should emerge.

> ‘The most promising economic outlook France has known for some years’

Until last week's measures, there had been a good deal of bewilderment among government supporters over the timing and direction of economic policy. Mr Chirac had promised that the Government would move fast towards freeing the economy.

Instead the privatisation bill seemed bogged down in the National Assembly and some of the right were disappointed by what they considered half-hearted measures over the lifting of price and foreign exchange controls.

Thanks to falling oil prices and the falling dollar, the right had also seemed to be the beneficiary of the most promising economic outlook France has known for some years - with real GNP likely to rise by 2.5 per cent this year, inflation falling to under 3 per cent and the current account moving into a substantial FFr 50bn ($6.94bn) surplus.

But instead of reaping the political benefits of this, Mr Balladur described the French economy as being in a "bad state" - drawing attention to France's loss of market share in the worldwide trade in manufactured goods and to the persistence of inflationary pressures.

In the wake of last week's measures some of the reasons for this confusion over the timing and direction of policy have become much clearer.

The Government's fear on coming to power was that the combination of its own heady pre-electoral rhetoric on boosting confidence and economic activity, coupled with the expectations built around the oil price windfall, would refuel inflation. Its priority was thus to cut short inflationary expectations.

As a perceptive article in the current issue of the Paribas economic bulletin points out, the March devaluation was not used for the normal purposes of improving the competitive edge of French exports. The effective 3.5 per cent depreciation of the franc against the DM was too small to have any significant impact.

The devaluation was primarily used to announce a standstill on public employee wage increases (since toughened to give public employees little or nothing this year in real terms), to cut public spending by 10 per cent (followed by a further FFr 40bn in 1987) and to tighten monetary policy.

Within the Finance Ministry there is now a debate over whether the Government dallied too long before announcing the subsequent deregulatory package. Mr Balladur believes that they could have acted a couple of weeks earlier - which would have saved the Government some of the abuse that it got from its followers last week over "watered-down" liberalism.

But some of his advisers believe that they first had to make sure that the restrictive message had taken root - as was confirmed by the FFr 60bn to 70bn of foreign exchange inflow.

Last week's package should further strengthen corporate profitability. It comes on top of a rebuilding of profits initiated under the Socialists three years ago

Yamani seeks talks with Norwegian Oil Minister

BY FAY GJESTER IN OSLO

SHEIKH Ahmed Zaki Yamani, the Saudi Oil Minister, has asked for talks with Norway's new Oil Minister, Mr Arne Øien, the minister revealed. Mr Øien told a news conference in Oslo that he hoped to arrange a meeting next month, after the end of the current parliamentary session, but before the next Opec ministers' conference, scheduled for June 25.

The Norwegian Labour Government, which succeeded a Conservative-led coalition earlier this month, has signalled greater willingness than its predecessor to collaborate with Opec.

Mr Øien said nothing had yet been decided about collaboration and that Norwegian strategy would depend on how the situation developed. "In a poker game, you don't show your cards," he added.

A condition of Norwegian co-operation was that the Opec countries should agree on measures which could stabilise oil prices at a "reasonable" level. Norway was not aiming to drive prices back to their previous "very high" level, he said. "What we want is to get them up from today's very low levels."

That did not conflict with the country's obligations to the International Energy Agency, Mr Øien argued, because the aim of that organisation was to ensure adequate petroleum supplies in the longer term. Prices had to be at reasonable levels to provide the incentives for continued energy conservation, and for continued exploration.

"We believe the present price is too low to be in the interests of the Western nations' energy supplies in the longer term," he said.

The minister said there was no question of Norway becoming a member of Opec; even a formal agreement with the organisation was unlikely. The Government would seek support from the Opposition for any steps it might decide to take, and would also keep its allies informed.

Italian industrialists call for more state investment

BY JAMES BUXTON IN ROME

ITALY'S industrialists yesterday called on the Government to play a positive role in promoting a new era of development for the Italian economy.

Mr Luigi Lucchini, chairman of Confindustria, the industrialists' association, told the association's annual meeting in Rome that Italy now had an "unrepeatable opportunity for a period of consolidated growth" following the collapse of the oil price and the fall in the US dollar. He spoke in the presence of Mr Bettino Craxi, the Prime Minister.

Mr Lucchini, a leading industrialist from the northern city of Brescia, who has been re-elected chairman of Confindustria for a second two-year term, reflected in his speech the immense confidence of Italy's big industrial groups, which are now making record profits.

But he pointed out that Italy's small and medium-sized businesses, which a few years ago were often the most dynamic companies in Italy, were now facing a "difficult situation." Many industrial sectors were static, he added.

This was partly because of the sudden change in export markets caused by the fall in the oil price. The companies affected were in fierce competition with those of France and West Germany which operated in better conditions in terms of energy costs, services, state support and infrastructure, he said.

Mr Lucchini repeated calls for the Government to reduce its public sector deficit — running at about 15 per cent of Gross Domestic Product — and to spend more on investment. At present for every L100 spent by the state, L92 went on current expenditure, and of the remaining eight only two were devoted to investment.

OVERSEAS NEWS

Concern grows in China over safety of nuclear programme

BY COLINA MACDOUGALL

THE CHERNOBYL nuclear plant disaster in the Soviet Union is accelerating concern in China over the safety of its own nuclear development programme.

This centres on worries about carelessness in atmospheric testing, the storage of nuclear waste and the operation of its own nuclear reactors which, including small experimental plants, are now estimated at more than 10 in number.

This week, the Kyodo news agency of Japan reported from Peking that a group representing the Uighurs, the non-Han Chinese inhabitants of the Xinjiang region, in the far northwest where China conducts its nuclear tests, have called for an end to such testing.

This followed demonstrations by Uighur students last December in Peking, Shanghai and Urumqi, Xinjiang's capital, against nuclear testing.

According to foreign businessmen, reports of accidents involving nuclear materials in Xingjiang circulated in Peking last year. While China continued atmospheric testing up to 1983, the authorities are reported to have underestimated the strength of the winds which blew the nuclear cloud from the test site to the inhabited south.

Peking radio last month disclosed that, as a result of poor management, the municipality had mislaid radioactive elements and an accident had occurred in which operators were "irradiated unusually." It also said that accident victims had not been properly dealt with and, as a consequence, some units had "caused disturbances." New safety regulations were to be implemented from May 1.

Officials at Britain's GEC expected to supply the turbines for the planned 1800 Mw nuclear power plant at Daya Bay in Guangdong province, said their Chinese counterparts are not familiar with safety factors.

China joined the Vienna-based International Atomic Energy Agency in 1984, and about a year ago set up its own nuclear safety administration. The IAEA, however, only advises on safety if requested.

Chinese officials have already sought to reassure Hong Kong opinion by stressing the safety of the nearby Daya Bay reactor, to be supplied by Framatome. The Framatome design, unlike the Soviet Chernobyl reactor, has three protective shields. However, at least one of China's two Soviet-supplied reactors in Xinjiang is thought to be similar to Chernobyl.

The Philippines is likely to declare void a contract with Westinghouse Electric to build a nuclear plant on grounds it may have been won by bribery from the government of ousted president Ferdinand Marcos, a Philippines official said yesterday, Reuter reports from Washington.

Mr Reoe Saguisag, chairman of the Philippines Nuclear Power Plant Commission, said after talks with lawyers and US officials that the Government of President Corazon Aquino could also claim default by Westinghouse because the $2.3bn plant had never been operational. Westinghouse has denied the contract was obtained improperly. He said the plant would never be operated by the Aquino Government.

Iran seeks extradition of dissidents

By David Marsh in Paris

IRAN has asked France to extradite Iranian dissidents living on French soil and to repay a $1bn loan granted by the Shah as conditions for improved relations.

At the end of a visit here this week to try to lay the groundwork for a rapprochement between Paris and Tehran, Mr Ali Reza Moayeri, the Iranian vice-Prime Minister, made apparent his desire for clear policy moves from France to break the political deadlock between the two sides.

France has been trying to improve contracts with Tehran as part of its efforts to seek release of nine French nationals held hostage by fundamentalist movements in Beirut. Yesterday was the anniversary of the kidnapping of two Frenchmen, Mr Jean-Paul Kauffmann, a journalist, and Mr Michel Seurat, a researcher.

Mr Moayeri yesterday denied that Iran had any links with groups holding the hostages.

He also said he had asked France to give up its outright support for Iraq in the Gulf war and observe "positive neutrality" in the conflict.

Even though Mr Jacques Chirac, the French Prime Minister, has long-standing ties with Baghdad, Mr Moayeri said he hoped the new right-wing Government would refrain from signing any new arms contracts with Iraq.

THATCHER TO STRESS INDEPENDENT LINE

PM seeks ideas on Mideast peace

BY ROGER MATTHEWS IN LONDON AND ANDREW WHITLEY IN JERUSALEM

MRS MARGARET THATCHER starts the first visit to Israel by a serving British Prime Minister on Saturday and will be seeking ideas for reviving the Middle East peace process.

British officials have stressed that she will not be carrying any fresh proposals and is not under any illusions that her visit could make a significant contribution.

However, Mrs Thatcher does value her ability to be on good terms with both sides of the Arab-Israel conflict and will be underlining that Britain has a Middle East policy independent of the US.

Apart from talks with Mr Shimon Peres, Israel's Prime Minister, and other prominent Israelis, Mrs Thatcher is to meet a number of Palestinians living in the occupied territories.

It is emphasised in London that these Palestinians will be noted for their moderation and the Prime Minister particularly wants to hear their views of the peace process and how best their life under occupation could be improved.

Israel shares the British perception that the UK can do relatively little to aid the peace process but, with Britain taking over the presidency of the EEC shortly, it will be anxious to hear what Mrs Thatcher intends.

Israel has been encouraged by what it sees as a more positive and realistic approach by the EEC members to the problem of international terrorism and will be seeking to promote Mr Peres's idea for a Middle East "Marshall Aid" plan to help offset the impact of sharply lower world oil prices.

Mr Peres raised the idea of the world's main industrialised nations contributing to the economic stabilisatioo scheme during his visit to London in January and is reported to have been encouraged by initial reaction by the seven nations attending the receot Tokyo summit.

Egypt has suggested a similar plan urging a $30bn contribution over 10 years to those countries hit by the fall in oil prices.

There is unlikely to be great enthusiasm for the Israeli and Egyptian ideas from Britain which counts itself as a victim of the oil price collapse.

Mrs Thatcher's visit will also be seen by both governments as the culmination of a two-year effort to improve bilateral relations following the low point they reached during and immediately after Israel's 1982 invasion of Lebanon.

The British Prime Minister will remind Mr Peres that London's policy has not changed at all on the issue of Israel's withdrawal from the occupied territories, including a slice of southern Lebanon.

But there will be mutual satisfaction that despite the continuing British restriction on weapons sales to Israel there are few other issues standing in the way of fruitful co-operation between the two countries in the years ahead.

Religious talks postponed after shelling

BY NORA BOUSTANY IN BEIRUT

HEAVY SHELLING of Beirut residential areas overnight prevented a highly symbolic meeting between Lebanon's highest religious authorities from taking place yesterday after months of political deadlock.

The fiercest bombardment in two months of the Kesrouan Hills, the area around the presidential palace in the Christian heartland and Beirut's Shi'ite Moslem suburbs left 40 dead and more than 120 injured.

A visit by the newly-chosen Christian Maronite Patriarch, Nasrallah Sfeir, to the Sunni Mufti of the republic, Sheikh Hassan Khaled, in Moslem-controlled West Beirut was cancelled as shells crashed on to e West Beirut hospital and bank yesterday morning.

The encounter between the most senior Christian and Moslem prelates in the country, was considered significant because it would help to break the ice between the two communities.

It would have been the first trip by a Maronite patriarch to the Moslem half of the capital in nine years.

A courtesy call by the Mufti to Patriarch Sfeir following his appointment on April 28 was scoffed at by Moslem groups closely allied with Syria, such as the Shi'ite Amal movement.

Lebanon's main christian leaders have been promoting a new Christian draft proposal for reforms and an end to Lebanon's 11-year-old civil war that has yet to be adopted by Christian President Amin Gemayel.

Though no details have been made public, Moslem leaders have rejected it outright

S. Korean economy picks up

By Steven B. Butler in Seoul

ECONOMIC statistics have begun to confirm a rapid recovery in the South Korean economy that had been widely predicted.

The Bank of Korea this week said that first-quarter growth in gross national product registered a provisional 9.7 per cent annualised increase, compared with 5.1 per cent far all of 1985. The bank also predicted that growth this year would reach 8.8 per cent. The figures show a very strong recovery in the manufacturing sector, which grew at 11.4 per cent.

South Korea's exports during the first four months of the year increased by 22.9 per cent, while imports increased by 16 per cent. Exports to Enrope alone surged by 55.5 per cent.

The current account deficit also decreased from $778m in the first four months of last year to $212m this year. The current account is expected to run a surplus this year.

Manila cash needs

The Philippines will need at least $400m in new money this year to allow some growtb and steady recovery, according to the Economic Planning Minister Solita Mansad, Renter reports from Manile.

India urges halt to Sri Lankan army offensive

BY JOHN ELLIOTT IN COLOMBO

INDIA has told Sri Lanka that it should put a "complete stop" to all its security operations in the northern province of Jaffna if it wants to reach a settlement of the island's Tamil ethnic crisis.

Its warning follows this week's major operation by Sri Lankan armed forces in which up to 50 civilians are thought to have died but only small military gains were made. This uncompromising stance by India, which is acting as a mediator in the ethnic crisis, falls just short of an ultimatum from Mr Rajiv Gandhi, the Indian Prime Minister, to President Junius Jayawardene of Sri Lanka to avoid further violence.

However, Mr Lalith Athulathmudali, the Sri Lankan National Security Minister, said yesterday that troops would come out of their camps to attack the main Tamil Tigers guerrilla group whenever it restricted troop movements.

Mr Athulathmudali said it was clear the Tamil Tigers "did not want any talks." Their leader Mr Velupillai Prabhakaran "wants war." He douhted, given the group's preaent attitudes, whether any ceasefire could be made to work.

Earlier Mr J. N. Dixit, Indian High Comissioner in Colombo, delivered his Government's warning to the president. Mr Dixit, expects to meet the president again today to discover bow Sri Lanka intends to press ahead with peace talks on the claims of the island's minority Tamil community. Earlier this month the talks appeared to be making good progress.

"We feel the military operation has put the peace process in jeopardy," Mr Dixit said last night. "The Government of India feels that if they (the Sri Lankan government) are serious about devolving power to the Tamils and obtaining a settlement, they must put a complete stop to operations by their security forces."

The military operation started in the northern peninsula of Jaffna Province last Saturday and followed two bomb explosions which killed 31 people and injured 200.

It also followed an intense battle in which the Tamil Tigers attacked another guerrilla group the Tamil Eelam Liberation Organisation, killing 200-300 of its activists.

It was widely assumed that Sri Lanka had decided to cash in on international sympathy over the bomb blasts after the recent Tokyo summit on terrorism and to exploit battle fatigue among the Tamil Tigers when it ordered the Sri Lankan army advance backed by air and naval forces.

Mr Athulathmudali said the Government achieved all it wanted. The aim of the army offensive to regain access to marooned bases where troop changes had been delayed for up to three months because they were surrounded by extremists.

"The alternative was to risk tired soldiers going on the rampage," said Mr Athulathmudali.

12 Hindus shot dead by Sikh terrorists

BY K. K. SHARMA IN NEW DELHI

SIKH terrorists killed 12 Hindus on Wednesday night in the busy market of Krishna-Nagar, a small town near Amritsar, in their most savage attack in the Punjab since they revived their campaign of indiscriminate killings in January.

Three groups of terrorists armed with automatic weapons gunned down shopkeepers and pedestrians and then fled. Police claimed later that at least five of the gunmen had been captured.

Sikh extremists have intensified terrorist attacks . . . Punjab's moderate chief minister, Mr Surjit Singh Barnala, ordered armed personnel into the Golden Temple in Amritsar on April 30 to regain control of the shrine from the extremists who seized it in January.

Mr Barnala's controversial decision has split his moderate Akali Party and threatened his own government. More important, although the moderates are again in control of the Golden Temple, the boliest of Sikh shrines, the extremists have apparently decided to intensify their campaign of violence against the minority Hindu community in Punjab.

The latest killings follow reports that panic-stricken Hindu families near Amritsar are fleeing Punjab. Many of them have sought refuge in the neighbouring state of Haryana. There are fears that the flow of migrants will increase because of terrorist acts.

The Government of Prime Minister Rajiv Gandhi has asked Mr Barnala to ensure that law and order is restored in terrorist-affected districts so that no further Hindu migration takes place and the refugees are able to return to their homes.

Security measures have been increased in the most sensitive districts of Punjab bnt this has not yet deterred Sikh extremists who have launched an armed struggle to achieve an independent Sikh homeland they call "Khalistan."

South African bank officials suspended

By Jim Jones in Johannesburg

THE South African Reserve Bank has taken the unprecedented step of prohibiting a commercial bank from dealing in foreign exchange.

Several executives and officials of African Bank, the small banking company which emphasises business with the black community, bave been suspended from office on Reserve Bank instructions while police and Reserve Bank investigators examine allegations of infringements of the country's strict foreign exchange controls.

African Bank was established only a few years ago by Mr Moses Maubane, a leading African businessman. He was belped by other major South African banking groups, which hecame minority shareholders, and several American companies.

Mr Maubane has been suspended from the position of managing director and Trust Bank, South Africa'a fifth largest banking group, has agreed to assume temporary management of African Bank. The bank's interim after-tax profit was R6m in the balf year to March 31 1986

ANC calls for tax and rent boycott

By Patti Waldmeir in Lusaka

THE African National Congress has called on South African patriots, including democratic whites, to refuse to pay rent or taxes as part of a campaign of civil disobedience aimed at the Pretoria Government.

In a broadcast from Lusaka, beamed to South Africa by the ANC's radio station, Radio Freedom, the movement's president, Mr Oliver Tambo, appealed for the fullest backing for the general strike called by the ANC and others for June 16, the 10th anniversary of the Soweto uprising in which bundreds died.

"Let every mine, factory, farm and white home be without labour. Let every university and school be emptied of its youth. Let every shop close its doors. Let every community strike a blow for freedom," said Mr Tambo.

The ANC president said these moves should form part of a campaign of "mass resistance, intensified armed struggle and growing refusal to obey racist authority"

Pretoria set to give details of multi-racial council

BY JIM JONES IN JOHANNESBURG

THE PRETORIA Government is to announce full details of a multiracial National Statutory Council (NSC) today, which it hopes will persuade black leaders to discuss the country's future with the ruling white National Party.

In parliament in Cape Town yesterday Mr Chris Heunis, the Minister of Constitutional Development and Planning, said the council could be seen as the start of power sharing and the creation of e government of national unity.

He said it would be an instrument and process for finding a new constitution

The council was first mooted at the start of this year by President P. W. Botha and some political observers had hoped that it might be a forum for realistic talks between black and wbite provided representative blacks participated.

Those hopea were shattered by Monday's attacks by South African forces on ANC targets in Zambia, Botswana and Zimbabwe. They were seen as e slep in the face for the Commonwealth Eminent Person's Group (EPG), which had been attempting to bring together the ANC and the Government of President Botha.

Reagan draws criticism over remarks on poor

BY REGINALD DALE, US EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan yesterday found himself at the centre of a new controversy over his Administration's attitude to the poor, reminiscent of his earlier days in the White House.

Mr Reagan drew national attention by remarking to a student group in Washington on Wednesday that the problem of hunger in the US was caused by "lack of knowledge" about where to obtain help.

"I don't believe that there is anyone going hungry in America simply by reason of denial or lack of ability to feed them," Mr Reagan said. He said private charitable efforts, directed largely towards the provision of food to the needy, had tripled in recent years.

Mr Reagan's comments drew immediate fire from critics such as Democrat Senator Edward Kennedy of Massachusetts, as well as from experts on hunger and poverty. Mr Kennedy had coincidentally introduced legislation restoring almost $15bn cut from food and nutrition programmes only hours before Mr Reagan spoke.

Mr Reagan was in a sense right to suggest that hunger was caused by ignorance, Mr Kennedy said—"the ignorance of those who do not see the suffering of millions of Americans," caused by unemployment or the cutting away of the social "safety net" by the Reagan Administration.

Other experts said one of the reasons people did not know where to find help was because the Reagan Administration had made insufficient efforts to inform them about their eligibility for benefits.

Numerous studies have found that the problem of hunger in the US is in fact worsening. One recent report estimated that a minimum of 20m Americans go hungry at least two days a month.

The outcry over Mr Reagan's remarks recalled charges levelled against him during his first term in the White House, when his Administration was frequently accused of being "uncaring" towards the poor and disadvantaged. In a celebrated comment in December, 1983, Mr Edwin Meese, one of Mr Reagan's closest advisers, said that he had never seen "any authoritative figures" on hungry children in America and that some people went to soup kitchens because "the food is free."

The White House insisted Mr Reagan had not meant to adopt a similar tone in his remarks on Wednesday and was not displaying a lack of passion for the hungry. He had simply repeated his belief that government and private assistance was available.

One of the most spectacular of the private charitable efforts to which Mr Reagan was referring is in fact to take place this Sunday, when perhaps 5m people are expected to link hands across the country for 15 minutes in an attempt to raise at least $50m to combat hunger and homelessness in America.

The "Hands across America" project is being organised by USA for Africa, the promoters of last year's "We are the World" famine relief effort. While there are expected to be some gaps in the chain, particularly where it crosses desert areas, the organisers are confident that it will get across its message that "Americans of all races and religions and political stances are standing together against hunger and homelessness."

Sharp rise in companies pulling out of S. Africa

By Stewart Fleming in Washington

MOUNTING social and economic problems in South Africa appear to have triggered a sharp increase in the number of US companies withdrawing from South Africa.

A report by the Washington based Investor Responsibility Research Centre identifies 52 US companies which have pulled out of South Africa since January 1, 1984, 38 of which withdrew last year.

The report, which provides a comprehensive list and details of the activities of 267 US companies with direct investment in South Africa says that for the fifteen years from 1966 to 1981 US companies increased their investment in South African subsidiaries and affiliates.

In 1981 US corporate assets were valued at $2.6bn. By the end of 1984, partly as a result of the rise in the value of the dollar, the figure had fallen to $1.8bn.

In an analysis of lending to South Africa, the report says that between June 1984 and June 1985 loans to South African companies increased by $159m. It says that 37 US banks told IRRC that they prohibit lending to the South African private sector compared with only six in 1984.

Bernard Simon assesses the challenges facing Mr Mulroney's government

Canada's PM forced on the defensive

LESS THAN two years after triumphantly entering office with one of the biggest parliamentary majorities in Canadian history, Prime Minister Brian Mulroney's Progressive Conservative Government is on the defensive.

Gone from television screens are the 1984 campaign images of Mr Mulroney exuberantly promising "a brand new day for Canada." A more common sight these days is the stony-faced Deputy Prime Minister, Mr Erik Nielsen, fending off opposition attacks during the lively daily question period in the House of Commons.

Mr Mulroney's trip earlier this month to Japan, China and South Korea, three of Canada's leading trade partners, was overshadowed by domestic political difficulties. Returning to Ottawa, the Prime Minister remarked philosophically that "that's what life is all about. The tide goes in and the tide goes out."

The recent problems—which include the fifth resignation of a cabinet minister since the 1984 election landslide, the defection of a Tory MP from Quebec, Tory setbacks in provincial elections and Canada's involvement in the lobbying activities of Mr Michael Deaver, the former White House Chief of Staff by no means herald the downfall of the Conservative government.

Mulroney—under pressure.

Mr Mulroney's mandate extends for another three years, a long time in politics especially in Canada where party loyalties are not strong. The Tories hold three-quarters of the seats in the House of Commons.

Indeed earlier this year the government appeared to be overcoming the difficulties which marred its first year in office. A stronger economy and the absence of new political controversies helped repair some of the damage done by an earlier spate of ministerial departures, the Government's perceived susceptibility to outside pressures, and a high unemployment rate. The public accepted tax increases in last February's budget with far less protest than the Government's abortive plan in mid-1985 to start de-indexing old age pensions.

Similarly, some of the recent setbacks may not do the Government much long-term damage. Falling into this category is the resignation of Mr Sinclair Stevens as Minister for Industry after a fortnight of widening conflict-of-interest allegations.

An Ontario judge has been appointed to examine whether Mr Stevens acted improperly when his wife arranged a favourable loan for a family business from the co-founder of a car parts company which has received financial assistance from the minister's department. Mr Stevens is confident his name will be cleared and that he will return to the cabinet.

Other developments in the past few weeks, however, may be harbingers of more serious problems for the Mulroney government. The opposition Liberal Party has made further gains at the provincial level following its success last year in unseating the 42-year Tory dynasty in Ontario and the Parti Quebecois government in Quebec.

The Liberals ousted a Conservative government on Prince Edward Island, the smallest of Canada's 10 provinces, in elections earlier this month. The opposition also scored significant gains in Alberta. Liberals are expected to do well in elections likely to be held later this year in Saskatchewan and New Brunswick.

When the Mulroney government took office, Tories controlled seven of 10 provinces with sympathetic governments in two others (Quebec and British Columbia). By this time next year, the Liberals may have the upper hand in five provincial legislatures.

Mr Mulroney faces an especially challenging problem in Quebec. Last week's decision by an MP from the predominantly French-speaking province to sit as an independent in Parliament is a sign of growing restiveness in the Tories' Quebec caucus. After holding only one of 75 Quebec seats in the last Parliament, the Tories surprised even themselves by winning 58 seats in the 1984 poll.

The landslide has turned out to be an embarrassment of riches. Quebeckers have complained that they are under-represented in the cabinet. Some of the new Quebec MPs have blackened both their own and the Government's name. One was charged last week on 50 counts of corruption.

Like weeds stifled by a strong-growing lawn, the recent problem might have been quickly overcome if the Mulroney Government had succeeded better in conveying a strong sense of purpose. With a vigorous parliamentary opposition and media making the most of even trivial controversies. But the Government's critics accuse it of losing sight of the big picture to put out minor brush fires.

The vacillation appears to stem from a combination of inexperience and Mr Mulroney's own predilection for conciliation and backtracking rather than confrontation.

US farm trade surplus heads for 13-year low

BY NANCY DUNNE IN WASHINGTON

FALLING prices and sagging exports are pushing the US agricultural trade surplus towards its lowest point in 13 years, the US Department of Agriculture said yesterday.

The USDA trimmed its forecast of farm exports for fiscal 1986 to $27.5bn while at the same time estimating imports at $20bn. The $7.5bn surplus would be the smallest since 1973 when the US farm export boom began.

Department economists yesterday reduced their December export estimate for the US from $29bn. They said grain customers have delayed their purchases in anticipation of lower prices after this year's harvest. Prices will drop because the 1985 farm bill allowed for a cut in price supports.

The Administration had hoped that lower prices would boost US competitiveness. The USDA said soyabean and soyabean meal exports are rising due to increased Soviet purchases and a drought in Brazil, and they expect an increase in livestock products. However the USDA forecasts a drop in the volume of farm exports this year from 115.5m tonnes, down 8 per cent from last year and 29 per cent from their peak in 1981.

Orders for manufactured goods fall 0.8% in April

BY STEWART FLEMING IN WASHINGTON

NEW ORDERS for manufactured goods in the US fell 0.8 per cent or $860m in April, the Commerce Department reported yesterday.

It was the third consecutive monthly decline in a statistical series which is often seen as a reasonably reliable guide to the level of future activity in industry.

Total new orders in April were $104.31bn, down from $105.17bn in March.

Mr Malcolm Baldridge, the Commerce Secretary, said, however he was confident that the fall in orders did not signal the start of an economic slowdown.

"Though durable goods production has not yet picked up, the housing sector and financial markets continue to signal faster economic growth," he said. April orders were about 2.5 per cent below the average level of the January-March first quarter.

The April decline was entirely due to a slump in orders for defence equipment, orders for which tend to be highly volatile when analysed on a monthly basis, because they are placed long in advance of expected delivery.

More worrying for the economic outlook is that although April orders increased 2.1 per cent once the defence component is taken out, orders for capital goods declined for the second consecutive month. In the first quarter weak capital spending was a significant drag on the economy.

Barco likely to emerge clear winner in Colombia

BY ROBERT GRAHAM IN BOGOTA

MR Virgilio Barco, the 61-year-old candidate of the Liberal Party, is widely expected to win Sunday's presidential elections in Colombia. With the campaign now closed, the main interest has focused on estimates of the margin by which Mr Barco will defeat his principal opponent, Mr Alvaro Gomez of the Conservative Party.

Mr Barco, an MIT-educated engineer with an impressive curriculum of experience that includes ambassadorships in London and Washington and ministerial portfolios in agriculture and public works, is being given up to 58 per cent of the vote by opinion polls. Against this Mr Gomez, the 67-year-old son of former President Laureano Gomez, can muster little more than 38 per cent, according to the same polls.

These percentages closely reflect the results of the parliamentary elections in March. Then the Liberal Party obtained 49 per cent of the vote, and a splinter faction of the party under Mr Luis Carlos Galan won a further 7 per cent. The Conservative Party won only 37 per cent of the support from the eight million electorate.

A reconciliation within the Liberal Party and a decision by Mr Galan not to contest the presidency further strengthened Mr Barco's chances. The presidential race was essentially decided by the outcome of the parliamentary elections and this produced an unexciting presidential campaign.

Mr Barco is proposing that henceforth presidential and parliamentary elections be held concurrently. If he wins he is also proposing to end an informal pact between the Liberals and Conservatives (two parties have traditionally dominated Colombian politics) whereby a government is composed of ministers from both parties. He wants the next government to be clearly identified as Liberal.

Mr Gomez has been labouring under the shadow of the repressive reputation of his father and his own record with taints of authoritarianism and unpredictability. He is also inhibited by a groundswell of disappointment over the performance of Mr Belisario Betancur, the outgoing Conservative president.

Stewart Fleming studies signals showing the way Congress wants to shift US policy

White House keeps trade bill at arm's length

LEGISLATION calling for sweeping changes in the way the US handles its trade relations has been passed in the House of Representatives. The Trade Bill, however needs to be looked at from two different perspectives.

At one level it is a partisan document prepared by the Democratic Party which controls the House, and was rushed through the committee stage at the behest of Mr Thomas P. O'Neill, the Speaker.

It has been designed in part to try to exploit the Reagan Administration's—and on the principle of guilt by association the Republican Party's—alleged failure to come to grips with the issues raised by a trade deficit of $150bn (£100bn).

Seen in this light, with the mid-term Congressional elections now only six months away and control of the Senate at stake, it would be easy to jump to the conclusion that there is more political rhetoric than substance to a package which the White House has labelled protectionist and which some observers say would be a diplomatic disaster for the President if he found himself forced to sign it.

It becomes rather more difficult to dismiss the bill as a piece of pre-election politicking when trade experts on Capitol Hill point out that not only is there similar legislation ready to start moving in the Republican-controlled Senate, but that in some ways, those Republican-backed proposals are tougher than the House bill.

Seen from this perspective, the trade bills being debated on Capitol Hill are signalling the direction in which Congress wants to shift American trade policy over the years ahead.

It is not a direction which either the Administration or US trading partners can feel very comfortable about, particularly if the worst fears of the Treasury Secretary, Mr James Baker, are realised and the trade deficit starts rising again after the anticipated improvement next year.

The House Bill, as it emerged from the Ways and Means Committee, seeks to curb Presidential discretion in deciding when to retaliate against foreign unfair trade practices, and increase the authority of the US Trade Representative in defending US trading interests.

It calls specifically for increased pressure to improve the access of US telecommunications equipment to foreign markets which are protected by unfair trade barriers, and for moves to strengthen protections for US intellectual property rights.

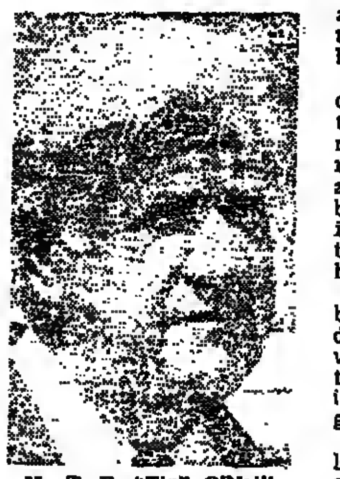
It toughens the application of US anti-dumping and countervailing duty laws so that, among other things, foreign export targeting is included as an unfair trade practice.

It also sets out in detail the goals the US should seek to achieve in the forthcoming Gatt round, summarising them as "fair and open trade, reciprocity and Gatt reform."

Perhaps the most controversial provision, one introduced by Representative Richard Gephardt, calls on the President to negotiate to cut persistent trade surpluses of American trading partners.

In several cases, the reform proposals are less radical than they appear, for loopholes are provided for the President to have more flexibility in deciding whether or not to take punitive action against trading partners than appears at first sight.

Moreover, at this early stage in the legislative process, before the Senate has even had hearings on trade reform, the bill the House has produced has to be seen as a negotiating document.



Mr T. P. "Tip" O'Neill

It has been designed with an eye on what might have to be surrendered in a House/Senate conference committee to achieve a compromise and has been prepared in part to put pressure on the White House to be more aggressive on trade issues.

It is from this point of view, from what the legislation says about the way the House—and to a considerable degree the Senate—is thinking about the thrust of US trade policy, that the legislation is particularly revealing.

It contains very little about the Gatt apart from the list of US negotiating objectives which amounts to an indictment of the multilateral free trade system as it is currently functioning.

The emphasis instead is on America's need to be more aggressive in pursuing its own trade interests on a bilateral basis.

As such, it seems to be based on the assumption that while the US is playing by the international trade rules, it is pretty much the only country which is, and that since it will be years before the rules can be improved, it had better start trying to sort out the mess bilaterally meanwhile.

The bill also seems to be based on the judgment that the days are over when the America was strong enough industrially to subordinate its economic interests to its geo-political goals.

This is most clearly articulated in the proposals to try to give the US Trade Representative more authority over trade policy decisions, and by implication other government agencies—the State Department for example—much less.

Some Administration critics go further and say that by emphasising military strength and paying too little attention, until it was too late, to economic weaknesses, the White House has hastened the arrival of the day when America cannot afford to pay the price—in terms of economic concessions to its allies—of world political leadership.

What are the chances of these judgments about America's place in the world trading system being translated into legislative action this year?

Most observers would say "not very high," although the way Congress has surprised the experts and rescued tax reform from the dead in a matter of weeks serves as a reminder of just how unpredictable it can be.

Trade reform legislation is supported by the Republican leadership in the Senate and by many Senate Democrats. That means there must be a reasonable chance of the Senate passing a bill.

Senate Republicans standing for re-election with control of the chamber at stake, do not want to leave themselves exposed to the charge that they are soft on trade any more than those incumbent Democrats facing local challenges from protectionist Republican rivals do.

The legislative calendar is crowded, however, so there may not be enough time for the Senate to act on trade.

Some on Capitol Hill believe that passing a bill is as much as the Senate Republicans need to do and that once it is passed their best option this year is to make sure that the legislation dies in a conference committee in September.

They can then avoid an outright confrontation on trade policy with a Republican President in the weeks before the mid-term elections.

But in states where textile or shoe workers are losing their jobs because of increased imports, Senators can still say that they tried their best to reform US trade law.

Meanwhile, the White House is keeping the trade bill at arm's length and not trying hard to work out legislative compromises.

It wants to be in a position where, if the worst comes to the worst, and Congress passes a trade reform bill which the President does not approve of, it will not be by a big enough majority to override a Presidential veto.

Japanese defend new TV system

By Carla Rapoport in Tokyo

JAPANESE ELECTRONIC companies yesterday staunchly defended their *high-definition* (HD) television system despite its recent setback at the International Radio Consultative Committee (CCIR), the international advisory body which recommends world-wide standards on broadcasting equipment.

Sony, one of the leaders in developing high-definition television, said: "Our position is to continue to develop and market the products because customers are asking for it."

Sony, JVC and Mitsubishi Electric declined to comment directly on the CCIR decision, but said that research and development of HD-TV will continue.

The proposed Japanese system for high-definition television would provide sharper, broader television pictures, but would render the current television system obsolete.

At the recent CCIR meeting in Yugoslavia, European countries succeeded in blocking the adoption of the new standard which had the backing of the US and Canada. The Europeans made their move out of fear that they would lose the entire television market to the Japanese.

Japan's national broadcasting company, NHK, was more outspoken on the issue yesterday. "This is a technically superior product to the experimental system proposed by the European countries," a senior NHK engineer said.

NHK engineers have been working on high-definition television broadcasting for over 10 years. It recently decided to begin *domestic* broadcasting on the new system by 1990.

NHK believes that the recent CCIR decision to postpone the adoption of a standard on HD-TV was not a complete setback for the Japanese.

Mr Takehiro Izumi, Deputy Director of Planning at NHK, pointed out that the report which will be issued by the CCIR will carry a copy of the Japanese proposal, including important technical details of the system.

"We wanted to reach the second floor, but instead we reached the first floor. At least we go off the ground," said Mr Izumi.

NHK executives say that European fears of being cut out of the world television market are ungrounded. "It is true that we are well advanced in this field.

"But we all think we should co-operate with European companies to achieve a transfar of technology in this business.

"We are ready to discuss the matter. We have to avoid the situation which developed in conventional television," a senior NHK engineer said yesterday.

US-Japan chip talks set for next week

By Carla Rapoport

DR CLAYTON YEUTTER, the US Trade Representative, and Mr Michio Watanabe, Minister of the Ministry of International Trade and Industry (Miti) are expected to meet in Tokyo next Wednesday in an effort to settle *the eight-month US-Japan semiconductor* trade dispute.

Some Japanese industry executives said yesterday that a solution to the dispute may be announced following next week's talks.

Miti officials, however, stressed that "substantial differences" till remained. "The earlier the better for settling this," a Miti official said.

Talks have been taking place *in Washington this week* and will continue today. The two sides are discussing allegations of Japanese companies dumping chips in the US market as well as the issue of improving market access for US companies in Japan.

The major sticking point has been the Japanese insistence on settling the dumping issue first, while the Americans have been pressing for concessions on market access.

EEC shipowners in bid to cut maritime transport surplus

BY QUENTIN PEEL IN BRUSSELS

SHIPOWNERS in the EEC yesterday launched an appeal *for state subsidies* to scrap their surplus shipping, in response to the glut in world maritime transport.

They called on the member-*states of the Community* to lead a "worldwide crusade" to accelerate the scrapping of old, inefficient or unwanted vessels.

They also urged that current subsidies to EEC *shipyards* should be redirected to help modernise and re-fit vessels, rather than build new vessels in the over-supplied market.

CAACE, the umbrella-group for EEC shipowners, published new figures to show a further deterioration in the position of the Community's merchant fleet. Since 1980, the *fleet has shrunk* by 20 per cent, and a further 15 per cent of vessels are laid up, the organisation said.

Excess capacity in world shipping stands at 36 per cent for oil tankers, 33 per cent for container ships, and 22 per cent for bulk carriers, Mr Jacobus Groenendijk, managing director of Nedlloyd and president of CAACE, said.

He urged the Transport Ministers of the member-states to overcome their differences and agree a common EEC maritime transport *policy* next month, which would provide measures both to retaliate against restrictive practices in world shipping, and to open up the internal Community shipping market.

"Without the *adoption* of these measures, we fear that the prospects for much-needed additional measures to enhance the competitiveness of the EEC fleet, and to restore *market* stability, will disappear into thin air," he said.

The common policy is deadlocked because of disagreement over the need to do away with the Cabotage system—of reserving domestic maritime traffic for domestic carriers—in countries such as France, Greece, Italy, Portugal and Spain.

The longer-term measures proposed by the *shipowners* include:

- Subsidies to scrap surplus tonnage and finance new engines and re-fits;
- Common terms for shipping finance in all member-states, including taxation systems, to compete with third country competitors;
- Free movement of *labour* with mutual recognition of certificates;
- Special reduction of social security costs and income tax *concessions for seafarers, to* reduce crew costs.

Pact will boost Moscow commercial role in Iraq

BY KATHY EVANS IN BAGHDAD

IRAQ and the Soviet Union have signed a major trade agreement which Western dip*lomats say will broaden Russia's* commercial role in the country.

The agreement is for five years and covers several areas of co-operation in the oil, energy and *power generation* sectors.

Few details were disclosed, but *officials in Baghdad* say that among the projects included is a gas transmission line from Nasriyah, Southern Iraq, to the capital and assistance on the exploitation of the oil fields West of Qurna.

The Russians will also build a power station at Yousisi and assist in irrigation and dam projects.

The agreement will elevate the Soviet Union from its role of a mere weapons supplier to Iraq. Moscow has for some time resented its absence from commercial business in Iraq. The Soviet Union is owed huge sums for military equipment provided to Iraq, though the total *size of the debt is not known.*

The accord was signed in Baghdad during a visit by Mr Constantine Katushev, chairman of *the Soviet Foreign Relations Committee.* Contracts were signed separately by the *Oil Minister,* Mr Qassim Ahmed Al Uraibi and by Mr Subhi Yassin, Iraq's Industry and Minerals Minister.

Mr Yassin said the agreements constitute a further step in bi-lateral relations and he welcomed the readiness of *Soviet institutions to become in*volved in Iraq's development plans.

OECD suppliers have come increasingly disenchanted with Iraq in recent months as another round of rescheduling negotiations begin for payments originally due in 1983.

Daewoo refinery plan

BY STEVEN B. BUTLER IN SEOUL

SOUTH KOREA'S Daewoo Corporation *is* expected to buy a 65,000 barrel-a-day refinery in Antwerp, owned by Nynas Petroleum.

The purchase would increase *Daewoo's* options *for* the disposal of crude oil which its sister-company, Daewoo Construction, receives in payment for construction work in the *Middle East.*

The company said yesterday *Daewoo was "interested in the* possibility of buying" the refinery. Negotiations are believed to be well advanced, with a near give-away price *already agreed.*

The transaction would have to be approved by the South Korean Government, and they could take several months.

NOTICE

TOKYO SANYO ELECTRIC CO LTD

7½ per cent Currency Linked/U.S. Dollar Payable Convertible Bonds due 1990 (the "bonds") and adjustment of Conversion Price to be made as a result of the issuance of new shares for free distribution

As required under Clause 7(B) of the Trust Deed constituting The Bonds dated as of 14th August, 1980, a notice is hereby given that with respect to the issuance of new shares for free distribution resolved upon at the meeting of the Board of Directors held on 12th May, 1986, the shareholders appearing on the Register of Shareholders of the Company as at 12.00 noon on 31st May (Saturday), 1986 (Tokyo time) (the Record Date) will be allocated three (3) new shares to be issued on 10th July, 1986 for each ten (10) shares owned, and as a result of such issuance of new shares for free distribution the following adjustment of the conversion price shall be made pursuant to condition

5(c)(1) of the terms and conditions of the bonds

(1) Current conversion price before adjustment	= Yen 513.5
(2) Conversion price after adjustment	= Yen 395.0
(3) Effective date of the adjustment (Tokyo time)	= June 1, 1986

BY

TOKYO SANYO ELECTRIC CO LTD

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ICI invests in wholly owned Japan venture

BY TONY JACKSON

ICI IS to invest £30m in Japan in its first wholly owned operations in the country.

Investment will come in three areas – pharmaceuticals, agrochemicals and in a high-technology research centre aimed particularly at the electronics industry.

The pharmaceuticals investment of about £11m will consist of a manufacturing plant near Osaka. Japan is the second largest drugs market in the world after the US and ICI has to date operated there only through a joint venture with Sumitomo, the Japanese drug company.

ICI said the first drug to be made at the new plant would probably be Nolvadex, a treatment for breast cancer, which is one of the group's bigger pharmaceutical products.

The technical centre, to be built at Tsukuba near Tokyo, will initially employ 50 staff working oo advanced materials, speciality chemicals and developments for the electronics industry. The ceotre would eventually employ 150 researchers.

The technical centre, which will cost about £11m, is to be completed by autumn next year. The first phase of the pharmaceutical plant is to be completed at the same time.

ICI is also seeking planning permission to set up a field testing station for agrochemicals on eight hectares of land north of Tokyo. ICI's sales in Japan last year were £400m, all conducted through joint veotures. The new iovestment will be the first made by the group in Japan in its own right.

● The Autobar Group, a £220m UK packaging business owned by the Kuwait fnvestmeot Office, is seeking to expand in Europe by the takeover of Bellaplast, a South German packaging company. The deal is being scrutinised by the German cartel authorities.

Like Autobar, Bellaplast makes plastic packaging for catering and dairy produce. Mr Anthooy Walford said: "We would like to repeat in Germany what we are doing in the UK."

Autoplast, which was acquired by the KIO four years ago, bought another German packaging company, Zach Packaging, three years ago.

"The matter is before the West German cartel office," Mr Walford said. "We have submitted details of our market shares in catering and dairy packaging, and they are consulting our competitors."

Plans for PO outlets to offer unit trusts

By Financial Times Reporter

THE POST OFFICE may be allowed to offer goods and services on behalf of private companies io its huge retail chaio of about 20,000 outlets. The Government is proposing to introduce legislatioo – probably next year – which would change the preseot rules which restrict the PO's ability to compete.

Initially, it is thought to want to offer unit trusts and savings schemes. At a later date this may be widened to ioclude services such as hotel bookings, airline tickets and theatre tickets.

Under existing law, the PO can provide only agency services for the Government and nationalised or former nationalised industries.

It is particularly keen to increase its counter business because it has been bit by economies from governmeot departments. Its banking arm, National Girobank, does offer some services to oon-governmeot bodies such as a cashing facility for savers in the Leicester Building Society.

The installation of a computer system will enable counter clerks to handle many more transactions and should speed up service.

S. African homeland cannot be sued in Britain, says judge

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

CISKEI, one of the so-called homelands established by the South African Government, cannot sue or be sued io the Eoglish courts, a High Court judge ruled yesterday.

Mr Justice Steyn said in the Commercial Court that the UK Government did not recognise Ciskei as an independent sovereign state and that it was an established principle of English law that an unrecognised state could not be party to an English legal action, oor its Government's acts recognised by an English court.

The questioo of Ciskei's status in English legal eyes had beeo raised by the judge himself during a case arising from a cootract to build a hospital and two schools in Ciskei.

Mr Justice Steyn was born and educated in South Africa. He was a senior counsel of the South African Supreme Court before settling in England in 1973. He was appointed a judge last year.

In 1983, Gur Corporation, a Panamanian company, contracted to build the hospital and schools in Ciskei. A South African bank, Trust Bank of Africa, guaranteed Gur against the cost to Ciskei of remedying any defects in the buildings after they bad been handed over.

Ciskei called oo the guarantee; the bank said that the claim was not properly made and that in any eveot the guarantee had lapsed. Because of the claim, bowever, the bank refused Gur's request for repayment of $300,000 Gur had lodged as security for the guarantee. Gur issued a High Court writ against the bank, which brought in Ciskei as third party.

Mr Justice Steyn said yesterday that the bank and Ciskei had both contended that the latter had legal standing. "I was not convinced," be said.

He had sought the assistance of the Foreign and Commonwealth Office, which had certified that the UK Government did not recognise Ciskei.

The judge said that it had been argued that Ciskei could be recognised as if it were a "subordinate body" of South Africa – much as, in a case some years ago, the courts had treated the German Democratic Republic as the agent of the USSR.

There was, however, no evidence to support that suggestion, the judge said.

Code to safeguard clients' money

BY BARRY RILEY

THE SECURITIES and Investments Board (SIB) has issued draft Client Money regulations and a related draft Cooduct of Business Rule. They are intended to ensure that money held by an authorised investment business is held on trust, and that such money is kept io a separate clieot hank account. The money will then be protected if the firm becomes insolvent.

The question of separation of client money is regarded as fundamental to investor protection. The case of Norton Warburg, an investment advisory firm that channelled clients' funds into several speculative private ventures before collapsing, was a key factor leading to new draft financial services legislation which bas resulted in the establishment of the SIB.

The Financial Services Act and the SIB regulaдons will require that deposits or withdrawals to or from the client bank account will be done in strict compliance with the regulations, so as to ensure the integrity of the account in the event of insolvency.

There will be an effect on life assurance and unit trusts intermediaries, which at present often receive client funds before passing them on to the assurance or trust company.

IBM business unit to offer data transmission service

BY ALAN CANE

IBM, the US-based computer group, yesterday signalled its intention to become an important player in the growing UK market for electronic data transmission services.

It announced the establishment of a business unit dedicated to networking services in the UK, with a package of products and services. They include a proprietary value-added data network (Van) and improvements and extensions to its technologies for linking computers together. The new unit is called Business Network Services (BNS).

The first offerings from the unit are a Van which IBM calls Managed Network Services and a business information transmission service called Information Exchange.

The managed network, which several customers have been using for some months, is aimed at companies with dispersed sites and anxious to exchange information electronically between those sites but with no desire to establish their own data communications network.

Two years ago an attempt by IBM to establish such a network in co-operation with British Telecom was vetoed by the Government on the grounds that competition in what was seen as an important market would be stifled

Vans are already provided in the UK by British Telecom, ICL, Geisco, I.P. Sharp, Centrefile, ADP and Istel among others.

IBM's managed data network will be based on its proprietary Systems Network Architecture (SNA) technology for connecting IBM computers. Machines other than IBM's can be linked into the network if they obey the same connection rules. IBM says, however, that it will provide support for the proposed common standard, Open Systems Interconnection (OSI), "as they apply to the services offered."

Frost & Sullivan, the market research organisation, last year estimated the Vans market in the UK in 1985 at £143m, rising to £1.1bn by 1990.

The business information system, Information Exchange, is designed to cut out much of the paper in business transactions. An example is the exchange of documentation between a retailer and its suppliers. Direct exchange of information between computers could eliminate the paperwork, and help to prevent errors.

IBM is also attempting to make it easier for its customers to connect together their personal computers or connect a network of personal computers to a mainframe computer.

Wider share ownership proposals criticised

BY GEORGE GRAHAM

PLANS by Mr Nigel Lawson, Chancellor of the Exchequer, for encouraging wider share ownership were attacked yesterday by the organisation that has been urging governmeots along this path for the last 25 years.

The Wider Share Ownership Council criticised what it sees as the way the tax relief now given under the Business Expansion Scheme and the much-smaller relief proposed in the Personal Equity Plans Mr Lawsoo announced in his budget in March will benefit the rich speculator but do little for the small investor.

Mr Edgar Palamountain, the council's chairman, said: "What the Chancellor has now done is to increase the attractions of the Business Expansion Schemes for the rich while fobbing off the poor with a demonstrably inferior product."

However, he hoped that the mere existence of the Personal Equity Plans and the publicity they attract would stimulate wider share ownership.

The council also attacked company share option schemes that benefited only senior managers and called on the Government to approve these schemes for tax relief only if the company introduced share ownership schemes for employees as a whole.

MPs press ministry on Swan Hunter order

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE GOVERNMENT is being pressed by MPs to give the Swan Hunter warship yard on the Tyne, north-east England, the frigate order it was promised more than a year ago.

Local MPs have put down a motion in the House of Commons calling on the Ministry of Defence order to be placed as sooo as possible.

Since the newly privatised yard lost a £130m naval order to state-owned Harland and Wolff last month, it has faced a dwindling workload. The keel of the last ship in its order book, the frigate HMS Chatham, was laid earlier this mooth.

The motion, to be signed by interested MPs, was put down in the House of Commons on Wednesday night by two Conservative and two Labour MPs.

Three months pay freeze for public service

BY DAVID BRINDLE AND PETER RIDDELL

THE GOVERNMENT has frozen three months pay rises recommended by review bodies for nurses, doctors, medical professionals the armed forces and top civil servants and judges.

The rises, ranging on average from 6.5 per cent to 8.2 per cent, will be paid from July 1 and not backdated to April 1, AS SCHEDULED. This will reduce the cost in 1986–87 to less than 6 per cent in most cases.

In a further move, ministers have averted a repeat of last year's controversy over the relatively high awards for senior civil servants, judges and high-ranking military officers by cutting their recommended rises this year to 4 per cent, or 3 per cent on the basis of deferred implementation.

Mr Nigel Lawson, Chancellor of the Exchequer, said in a latter sent yesterday to all MPs: "This group last year received very substantial increases: we did not judge it necessary this year to go beyond the amount necessary broadly to maintain last year's pay levels in real terms."

The Government also acted yesterday to try to forestall criticism over funding of the pay review body awards in the National Health Service.

In a move taken to reflect the Conservative Party's anixiety to be seen as "caring," it was announced that an extra £80m would be provided for health authority cash limits from within the existing total of planned public expenditure.

On this basis, ministers sought to claim last night that the cost of the pay awards should be met without any squeeze on the level of services provided to patients.

It was argued that any additional cost on top of the £80m could be found as a result of the slowdown in inflation to 3 per cent from the 4.5 per cent rate assumed when cash limits were set. The scope for savings by increased efficiency was also pointed out.

The Government's treatment of the awards was generally well-received yesterday by Tory MPs, who regarded the approach as a clever package which did not break public spending guidelines.

One Tory MP commented that the package, particularly the scaling-down of the top salaries awards, bore all the hallmarks of the "Tory whips parliamentary managers. Last year, the awards to this group provoked a big revolt in the House of Commons.

MPs committee calls for new Whitehall code of ethics

BY HAZEL DUFFY

THE POWERFUL Treasury and Civil Service select committee of MP's told the Government yesterday that the guidance to civil servants on their duties towards ministers was inadequate.

Although the all-party group condemned the action of a civil servaot who leaked confidential documents on the sinking of the Argentine cruiser General Belgrano during the Falklands war, its report said that present guidance did not work in the case of civil servants caught up in the more recent Westland affair.

The report recommends that a code of ethics should be drawn up by Sir Robert Armstrong, head of the Home Civil Service, which should be agreed with the Civil Service trade unions.

It also recommends that, Mrs Margaret Thatcher, the Prime Minister, after consulting with the other party leaders, should publish guidelines for ministers setting out their duties to parliament and responsibilities for the Civil Service.

Under the present guidance, issued by Sir Robert in what has become known as the Armstrong Memorandum, the appeal route for a civil servant who feels he is being asked to do something by a minister which is against his conscience, is through his superior, and theo the Permanent Secretary of the Department.

The MPs say that Sir Robert should make it clear that he is prepared personally to consider appeals. If this was seen oot to work, the committee would consider the suggestion out forward by the unions that there should be an independent appeal route through a parliamentary ombudsman or special select committee.

Other key recommendations of the report are:

- A minister's policy unit be set up as an experiment in more than one department. Described as "more an expanded private office than a cabinet on the European model," it would be staffed by special advisers, civil servants and the parliamentary private secretary.
- The Civil Service should have a single minister aod the head of the Civil Service should be a full permament secretary working to the minister.
- Ministers should not require their press officers to do more than present and describe their policies – if they want more, they should make political appointments.

Reactioo to the report yesterday was favourable. Mr John Ward, general secretary of the First Division Association, welcomed the proposal for a new code of ethics.

Sir John Hoskyns, director general of the Institute of Directors, said: "If the proposals and thinking of the committee are accepted, we will have a recipe for a stronger resource for ministers and a well-led, well-trained Civil Service with a higher morale."

SG7 Civil Servants and Ministers: Duties and Responsibilities. Volume I, report £4. Volume II Minutes of Evidence, £5.40. HMSO.

Industrial spending shows 2% rise

By Walter Ellis

CAPITAL SPENDING in the manufacturing, construction, distribution and financial industries reached just under £5bn in the first quarter of this year – 4 per cent higher than in the preceding quarter of 1985 and 2 per cent on the first three months of 1985.

Figures released yesterday by the Department of Trade and Industry (DTI) also showed that the volume of investment in the 12 months to the end of March was nearly 2 per cent higher than in the previous 12 months.

Provisional estimates of manufacturers' direct expenditure in the first quarter of this year reveal a total of £1.43bn, seasonally adjusted.

Leasing of assets to manufacturers from the financial industries takes the total to £1.8bn – more than 5 per cent higher than in the first quarter of last year.

The volume of investment, including leased assets, in the last 12 months was 2 per ceot higher than in the previous year.

On the same annual basis of comparison, expenditure, including leasing, on individual assets rose by nearly 8½ per cent for new building work, 2 per cent for vehicles and 1 per cent for plant and machinery.

Figures produced yesterday by the DTI on production and distribution stocks between January and March indicate that the level of stocks held by manufacturers, wholesalers and retailers rose by almost £230m at 1980 prices, seasonally adjusted.

There was a sharp increase to wholesalers' stocks of almost £345m in the first quarter and a rise in retailers' stocks of nearly £70m. Manufacturers reduced their stocks by some £185m.

GUS takes 23% of Harris Queensway in £146m stores deal

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

GREAT Universal Stores (GUS), the mail order, retail, and finance group, yesterday sold its Times Furnishing and Home Charm retail stores to Harris Queensway in a deal valuing the stores at £146m.

GUS, however, is taking a 23 per cent stake in Harris Queensway instead of the cash and bas secured the appointment of Sir Philip Harris, chairman of Harris Queensway, to its board as a non-executive director.

City of London analysts see this move as opening the way for Sir Philip, 44, to take over eventually from Sir Isaac Wolfson, the 88-year old co-chairman of GUS, and his son, Lord Wolfson, 59, also co-chairman.

Mr Harold Bowman, GUS assistant managing director, said the company "welcomes the entrepreneurial flair that Sir Philip will bring to GUS and its operations."

The deal will create a retail group under the Harris Queensway banner with more than 1,300 stores in the furniture, electrical, do-it-yourself, carpets, and household goods sectors and total sales of about £670m.

In its last full financial year to end March 1985, GUS sales totalled £2.2bn.

An agreement is to be made between Sir Philip and GUS about their respective holdings of Harris Queensway shares. It is understood that this would give each other the right to buy these shares should they become available.

Harris Queeosway has also bought back the 20 per cent shareholding in its Poundstretcher discount stores chain that GUS acquired earlier this year when it sold its Thoms stores to Harris Queensway.

Labour attacks equities scheme

BY NICK BUNKER

ABOUT 500,000 investors are expected to buy shares through the Government's Personal Equity Plans (PEPs) in 1987, their first year of operation, MPs heard last night.

The figure was revealed by Mr John MacGregor, Chief Secretary to the Treasury, as Opposition MPs launched a heavy attack on the Government's tax incentive scheme for wider share ownership, announced in this year's budget.

Mr MacGregor said that the figure of 500,000 investors had beeo behind the Treasury forecast that Peps would cost the Exchequer £25m in lost tax revenue in 1987-88.

The later figure assumed that each investor would use his full £2,400 allocation for tax-free investment under the scheme, he said during a Commons committee stage debate on this year's Finance Bill.

Labour MPs accused the Government of cynicism and misplaced priorities in introducing a scheme costing £25m a year as it simultaneously proposed a halving of mortgage interest support for the unemployed aimed at saving £30m.

Mr Terry Davis, a Labour Treasury spokesman, said that the income and capital gains tax reliefs envisaged for Pep participants would be too small to help low income people and largely benefit existing holders of shares rather than stimulating a broader spread of wealth.

"It is a tax bonus for the rich and an opportunity for the investment managers in the City of Londo" Mr Davis said.

"The Labour Party is going to vote against it." The small size of share investments that could be afforded by the less well paid, and the exclusion for the most part of unit and investment trusts from eligibility for inclusion in a personal equity plan meant that most people would be unable to build up a diversified share portfolio, Mr Davis said.

Missile warning base to get improved radar

BY LYNTON MCLAIN

THE BALLISTIC missile early warning station at Fylingdales, Yorkshire, is to be demolished and replaced with a new advanced radar able to detect multiple-warhead missiles.

The distinctive "golf ball" radomes are to be replaced with a single three-sided, pyramid-like structure high on the Yorkshire moors, Mr John Stanley, Minister of State for the Armed Forces, said in a written answer in the House of Commons yesterday.

The aim is to replace the present system, which is difficult to maintain, with an advanced radar better able to detect multi-warhead ballistic missiles.

The pyramid radar is to be designed to be more compact, with a less visible profile than the "golf ball" domes.

The "golf ball" radomes, with their four-minute warning of attack, are coosidered by the Ministry of Defence and the US Pentagon as obsolete. The warning time will "improve" with the new radar.

Labour expels two Militants

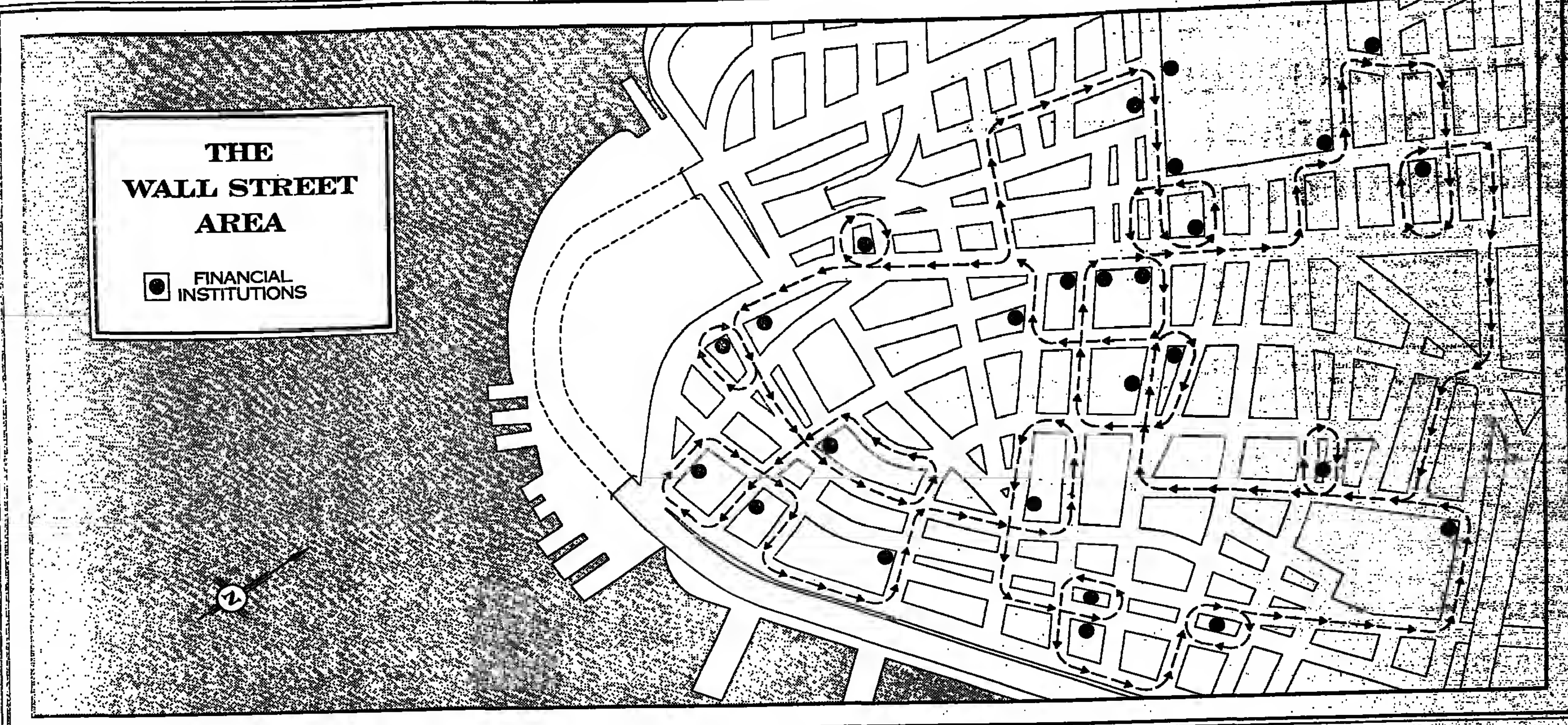
By Michael Cassell

LABOUR'S long-running and tortuous attempts to purge itself of supporters of the Trotskyite Militant Tendency yesterday culminated in the first expulsions from the party.

After rowdy scenes at the party headquarters in South London on Wednesday, during which some of those accused of Militant membership tried to wreck disciplinary hearings against them, the party's national executive committee (NEC) finally began to make some progress.

In the early hours of yesterday morning the NEC, after a 15-hour hearing, decided to expel Mr Tony Mulhearne, the former president of the disbanded Liverpool District Labour Party, for membership of Militant and for breaking Labour Party rules.

Later in the day, the NEC handed out a similar punishment to Mr Ian Lowes, chairman of the joint shop stewards (union officials) committee of Liverpool City Council. The hearing against Mr Derek Hatton, deputy leader of Liverpool City Council, had to be postponed because of Mr Hatton's decision to return to Liverpool.



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The second problem is that the reporting requirements may be very different from the ones you're used to.

And finally, before you get a dime your company may be required to disclose information that you're not normally prepared to discuss in public.

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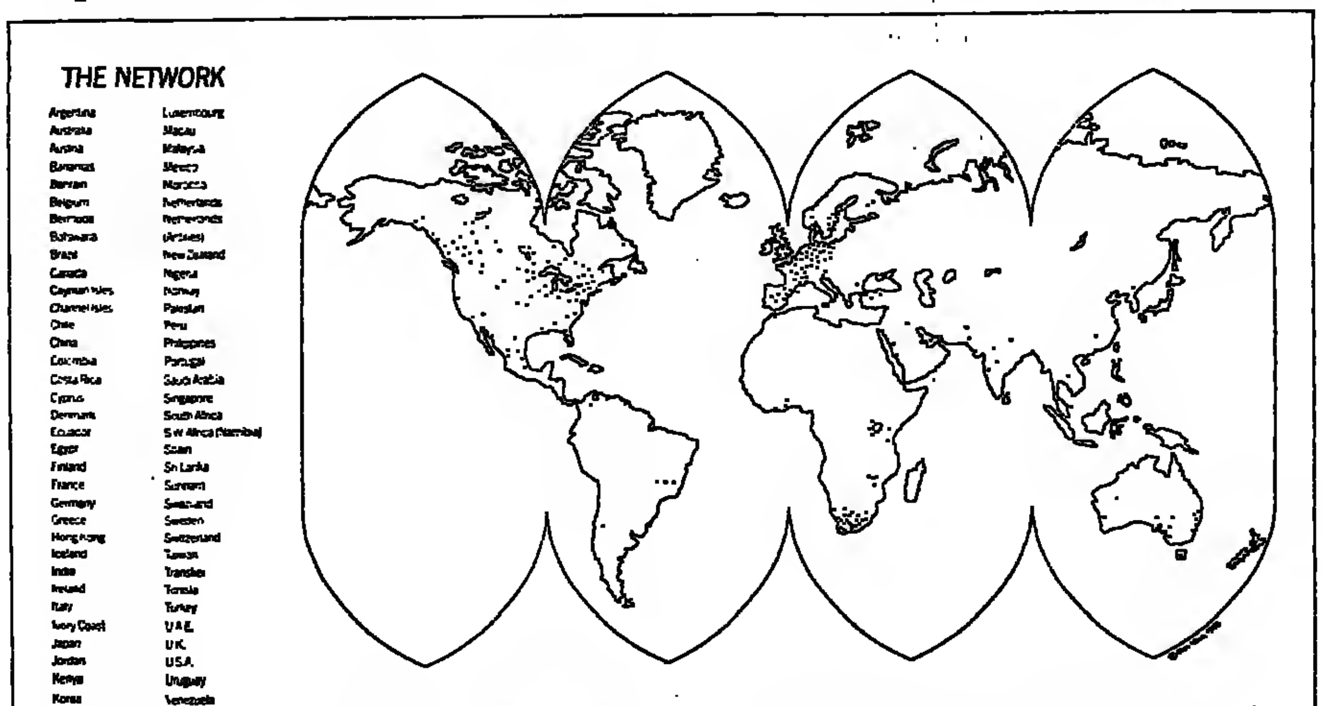

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Our S.E.C. department is recognised within the industry for its expertise and high-quality advice.

In fact, for one of the largest initial public offerings ever made on Wall Street – on behalf of a major executive aircraft manufacturer – we developed an accounting approach which is now used as a precedent by the U.S. Securities and Exchange Commission.

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For further information about our worldwide network, please do not hesitate to contact the KMG International Executive Office in Amsterdam, telephone 31 (20) 42 42 45.

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INTERNATIONAL ACCOUNTANTS AND CONSULTANTS

UK NEWS

Water authorities reject piecemeal privatisation plan

BY PHILIP BASSETT, LABOUR EDITOR

WATER AUTHORITY leaders yesterday urged the Government to privatise simultaneously all 10 authorities in England and Wales rather than go for the piecemeal approach suggested in the Government's recent privatisation proposals for the industry.

The statement by senior officials of the Water Authorities Association (WAA), the industry's umbrella body, reflects concern that step-by-step privatisation could place the industry in what Mr Len Hill, WAA chairman, yesterday called "real trouble."

Under the Government's plans an enabling bill would be proposed – probably at the start of the next parliamentary session in November – with the intention of it being law by summer 1987.

The Government is suggesting that one or two of the authorities might then be ready for sale by the end of that year.

The WAA is concerned that these proposals could leave the industry *having to deal side-by-side* with at least three differently constituted bodies:

- Water bodies which are still fully public, governed by financial targets and overall government spending plans.
- Those at the first stage of privatisation, which have been turned into companies but which are still 100 per cent government-owned.
- Those fully privatised which have been successfully put up for sale.

The WAA supports the broad framework of the Government's plans, but believes there is a strong case for maintaining coherence in the industry and especially its internal structure, which it says is admired by other countries.

The planned timetable for privatisation puts the sale point for any authority only months before the due date for a general election.

Gaming growth slows

BY LISA WOOD

GROWTH OF Britain's casino and bingo balls businesses slowed down last year, according to the annual report of the Gaming Board, published yesterday.

Estimated total "drop" money at casinos, (money exchanged for chips) was £1.6bn, an increase of £138m or 9 per cent over the 1984 figure of £1.4bn. In 1984 the percentage increase on 1983 was 14 per cent.

London retained its lead position in casino gambling. Its share of the total drop remained at 76.2 per cent. There was no increase in the number of casino licences in the capital, but outside London the number of casinos decreased by three.

SHORTER TIME SOUGHT IN CLEARING ASIANS FOR BRITAIN

Call for immigration shake-up

BY ROBIN PAULEY

A SHAKE-UP in the system of clearing Asians from the Indian sub-continent for entry to Britain as immigrants, together with a ban on entry of second and polygamous wives, is recommended in a House of Commons report.

The all-party Home Affairs Select Committee said that immigration from the Indian sub-continent was likely to remain substantial for a considerable time, although primary immigration by adult males had virtually ceased by 1982.

Waiting times for applicants on non-priority lists being processed by entry clearance officers on the sub-continent ranged from six months in Bombay to as long as 22 months in Dhaka, Bangladesh, and longer for people re-applying. The committee said the Government should set targets for maximum waiting times for the first interview. If those times were exceeded, additional staff should be sent out.

More attention needed to be paid to the problem of bogus applicants and fraud, particularly to forged documents. It was recommended *that the British High Commissioner* in Dhaka should discuss with the Bangladesh Government the possibility of joint initiatives to deal with people who dealt in forged documents, particularly the so-called "travel agents" in the Sylhet region who specialised in forged documents.

The report also recommended an experimental test run of DNA fingerprinting to test relationships of applicants. The test involves isolating DNA – essentially a genetic code unique to each individual – from a blood sample and constructing a "fingerprint" that can be used to establish some kinds of relationship beyond doubt.

The committee said, however, *that the test should be strictly* voluntary, accompanied by adequate security to prevent samples from being mixed up, and should be used in conjunction with other evidence.

Under the 1971 Immigration Act, a man settled in Britain can be joined by all his wives and their children provided he was domiciled in a country permitting polygamy at the time of the relevant marriage or marriages. It is not clear how many polygamous wives are in Britain because the statistics show only second and subsequent wives, and they include cases where the first wife or wives are dead, divorced, were invented for tax purposes or are not in Britain.

The committee recommended *that the Act should* be *changed* to remove settlement rights from second or subsequent wives and their children in cases where a wife had already been admitted to the UK.

Second Report from the Home Affairs Committee Session 1985–86: Immigration from the Indian Sub-Continent: House of Commons paper 67-I; £5.16; HMSO.

BP and Atochem in bulk plastic link-up

BY TONY JACKSON

BRITISH PETROLEUM (BP) is to merge its polypropylene interests with those of the French company Atochem. Joint capacity is to be increased by more than 50 per cent, making the new company Europe's fifth largest polypropylene producer.

BP and Atochem (part of the Elf Aquitaine group) have one polypropylene plant apiece. Atochem is to expand output at its Gonfreville plant, near Le Havre, from 85,000 to 100,000 tonnes, and is to introduce more efficient catalyst technology.

BP is to build a 150,000 tonne plant at Lavera near Marseilles, also using Atochem's new catalyst technology. The plant is scheduled to open in 1988 and BP will then close its existing 80,000 tonne plant at Lavera.

Investment in the project will total FFr 600m (£55m). Atochem will have a 51 per cent stake in the company, BP 49 per cent.

The new capacity of 250,000 tonnes will put the company fifth after European leaders Himont, ICI, Hoechst and Shell – the "big four" in the polypropylene cartel which last month incurred some of the biggest fines yet imposed by the European Commission for breaches of competition rules.

The decision to increase capacity is likely to attract criticism from Europe's other polypropylene producers. Although demand for polypropylene continues to grow by up to 14 per cent this year and supply is fairly tight, profit margins remain meagre.

London-based consultants Chem Systems estimate that in the first quarter of this year polypropylene producers in Europe made a return on capital before depreciation and interest charges of about 13 per cent.

Although higher than seen for a number of years, this is not regarded as high enough to justify new investment.

Foratom report sees cost advantages of nuclear power

BY DAVID FISHLOCK, SCIENCE EDITOR

SEVEN WESTERN European countries, including Scotland, obtained over 24 per cent of their electricity from nuclear energy last year, according to the latest review of nuclear power by Foratom, the association of European nuclear trade associations.

The report, released yesterday, provides some measure of the difficulties faced by European political parties such as the SPD in West Germany, which is proposing to abandon nuclear power after last month's Chernobyl explosion.

France, which obtained 65 per cent of its electricity from nuclear reactors last year, is the most heavily committed European country, with another 17 reactors being built.

Belgium, with almost 60 per cent of its electricity last year coming from its eight nuclear plants, reports that nuclear power was 24 per cent cheaper to generate than electricity from coal.

Sweden, with 43 per cent nuclear power from its 12 nuclear stations, claims the highest per-capita share of nuclear electricity in the world – 7,800 kilowatt-hours a year.

Switzerland's nuclear output rose by 22 per cent last year, to provide 38.8 per cent of the country's electricity.

Finland, with four reactors – two Soviet – claims load factors among the highest of nuclear stations worldwide and obtained 38 per cent of its electricity that way. Its two Swedish-designed reactors were uprated last year, from 660 megawatts (MW) output to 710 MW.

West Germany's nuclear electricity rose from 24 per cent in 1984 to 31 per cent. It maintained a cost advantage of DM 0.04 to DM 0.05 a kilowatt-hour over coal. It has 20 plants operating and five more being built.

Spain's nuclear output rose by 21.5 per cent to give the nation 24 per cent nuclear electricity from eight reactors, with three more being built.

Britain, with 38 reactors in service, managed to obtain only 19 per cent of its electricity from nuclear power. But Scotland is more heavily dependent, obtaining 45 per cent of its electricity from five plants.

The Netherlands (6 per cent) and Italy (4 per cent) are small-scale users of nuclear power, although two reactors under construction in Italy are expected to raise that to 7.2 per cent.

Foratom status report on nuclear power in Western Europe. Foratom, 1 St Albon's St, London SW1Y 4SL.

UK NEWS

WHITE PAPER ON DEREGULATION

Drive towards fewer curbs on enterprise

THE GOVERNMENT'S white paper on further deregulation measures to try to promote employment is the second of what will he a series of three moves using small shifts in government and business practices to drive towards nothing less than a "profound change of culture."

The Government acknowledges that implementing the changes proposed in the white paper, published yesterday, will be a "major task." The document reviews the progress on the 80-odd changes put forward in last year's white paper, Lifting the Burden, and announces a roughly equivalent number of fresh measures.

Many of these aignal a whole range of consultative moves the Government is to make over the next 12 months, and will themselves be reviewed in a further white paper next summer.

The drive behind the white paper, stemming from Lord Young, the Employment Secretary, is atill that businesses must be helped not hindered by government to develop their enterprise and so create jobs.

It is rooted in the fact that regulated Europe bas seen steady growth in unemployment and the loss of 2m jobs over the past decade, while the largely deregulated US bas seen employment grow and unemploymeot fall.

The white paper argues: "The secret of the American experience undoubtedly lies in a more entrepreneurial society. Yet that is not all. If we examine their economy we will see that individuals are far less restricted if they wish to work for themselves, to start a new business, or to employ people. They enjoy a freedom from regulations foreign to most Europeans."

Government regulations are designed to ensure the safety of the public, set a framework for employer/employee relations, protect individuals from health and safety bazards at work, protect the environment and are even required to bring in revenue.

The Government says it does not want a completely uoregulated society, and that to some extent such regulations are part and parcel of running a successful compaoy. But it claims that energies are often diverted from wealth-creation by complicated or obsolete official rules.

The paper accepts that the deregulation drive—each government department now has a deregulation unit, answerable to the central unit in Lord Young's department—may not bring fewer regulations. But it argues that the outcome will he better regulations and thst deregulatioo is particularly important for new companies taking on their first employees. "New busioess start-ups are the essential source of jobs for the future. We should seek to ease their task, not add to it."

Drawing on examples from West Germany, the Netherlands and France, the ideological heart of the paper contends thst regulations and licences "tend to build up a cosy industry insulated from outside competition." While some industries might even benefit from this, it proclaims: "State control breeds corpulent firms."

The paper seeks to improve communication between government and business. It proposes setting up a system of business liaison points and making a conscious effort to consult individual businesses directly, as well as througb business organisations such as the Confederation of British Industry or Institute of Directors. Among the methods suggested are the use of independent opinion surveya and questionnaires.

While it accepts that many of the changes may seem minor, it argues for their cumulative impact, and concludes: "Better regulation will continue to protect our society, belp enterprise flourish and business grow. But above all else it is part of the process that will enable jobs to multiply and unemployment wither away."

Building Business . . . not Borriers. Cmnd 9794, SO, £6.50.

Young wins accord on aims

LORD YOUNG, the Employment Secretary, has managed a Whitehall first by winning agreement for a specific set of aims for the Department of Employment.

The white papor says:

The prime aim of the Department of Employment is to encourage the development of an enterprise economy. The way to rednce unemployment is througb more businesses, more self-employment and greater wealth-creation, all leading to more jobs.

The key aspects of the department's work are to:

- Promote enterprise and job creation in growth areas such as small firms, self-employment and tourism.
- Help business to grow and jobs multiply by cutting red tape; improving industrial relations by ensuring a fair balance under the law and enconragiag employee involvement.
- Improve training arrangements so that young people get a better preparation for work, and adults obtain the skills they need to compete in the world.
- Help the young and those out of work for some time to find work, training or opportunities likely to lead to a job.

In addition ta the nationwide network of high street Jobceotres, there are more than 30 training, employment and business help schemes. Among them are schemes for people employed, unemployed, skilled, unskilled, young or old.

The department's many other activities include:

- Helping unemployed people by the prompt payment of the benefit and allowances to which they are entitled.
- Helping protect the employment of individuals, incloding those disadvantaged on grounds of race, sex or disability.
- Helping mainlain and improve health and safety at work.

Lord Young

The Department of Employment group also comprises the Manpower Services Commission, the Health and Safety Executive and the Advisory, Conciliation and Arbitration Service.

Review of VAT policy planned

BUSINESSES consistently identify value added tax as the most onerous government burden on their operations, according to the white paper.

Lifting the Burden, the previous white paper, made a variety of changes in VAT regulation, but the Customs Department, which administers VAT, acknowledges it remains a source of complaint, especially from small businesses.

Accordingly, the Government is proposing a review of VAT policy towards small businesses, which would be completed by mid-1987. It will include a number of options for change:

Cash accounting. Instead of claiming and paying VAT via invoices, businesses would be able to do so in cash.

Retailers. There would be a review of limits on turnover which apply to some retailers' special schemes.

Payment. VAT would still be assessed annually, but regular monthly or quarterly payments based on an annual assessment could be made—on the lines of budget payments of gas or electric bills.

Registration. A review will be completed by the end of the year of VAT registration and deregistration procedures.

Free zones. Customs will review by March 1987 the operation of all designated free zones, including VAT requirements.

REPORTS BY PHILIP BASSETT

Further proposals to simplify business life

In addition to general regulatory activities affecting all businesses—planning, taxation, employment—the paper details further specific proposals from individual Government departments which have a more particular impact.

These include:

Company law. In the wake of a consultative document on small firms accounting requirements, the Government has decided to retain the necessity for small companies to have their accounts audited as a first defence against fraud. But the Government does intend to relax the rules on the amount of information small companies are required to disclose in their accounts.

A consultative document will be published in July with proposals for replacing the present requirements governing the filing of annual returns and accounts at the Companies Registration Offices, and for introducing simpler procedures for establishing and changing a company's accounting reference date.

The document will consider the position of the ultra vires rule, which means that companies can only perform activities covered by the objects clause in their individual memorandum of association.

This has led to lengthy clauses, and the Government believes that abolition would allow companies to engage in any activity, encouraging enterprise.

Radio regulation. Licences will no longer be needed for a wide range of low-powered devices, such as emergency alarms and anti-shoplifting systems cutting the number of licences by about 34,000.

The scope for applying market forces to the allocation of radio frequencies will be examined in a study to be completed by the end of the year on a "spectrum pricing" system, under which potential users would compete for frequency blocks, and would then be free to use or reallocate them as they wished.

A new telecommunications class licence will be issued this summer, opening up to competition all value added and data services. Class licences are also to be issued for narrow band cable TV services, including the reception by cable of satellite TV.

Taxis. Early next year, there will be a further review of whether more relaxations of the taxi and hire car regimes are desirable, following those in the 1985 Transport Act.

Aviation. The Civil Aviation Authority is examining the organisation of its safety staff who set standards and carry out inspections. The Government hopes this will lead to greater efficiency.

Other areas under review are flight crew licensing, and the supply of weather information to small operators.

Merchant shipping. Legislation will be introduced to simplify the administration of marine pilotage, repealing orders and by-laws now controlling it and abolishing the Pilotage Commission.

The Government will also consider whether codes of practice might replace some shipping regulations, such as those on the carriage of water and provisions on board ship.

When the parliamentary opportunity arises, the Government will introduce a Merchant Shipping Bill which will simplify the arrangements for ship registration, and will improve current laws governing crew arrangements, the payment of wages, trade disputes and repatriation.

Agriculture. The Government believes there is increased scope for using farm resources for non-agricultural purposes after changes in agricultural production. Finding new uses for redundant agricultural buildings will, the paper says, help encourage alternative forms of employment in the countryside.

Rights of employees may be curtailed

EMPLOYMENT legislation as a whole imposes significant burdens on employers, says the paper, adding: "There is evidence that it has acted to reduce employment, e.g. by discouraging some employers from recruitment. Regrettably, it is those regulations designed to offer security of employment that have done most to persuade employers that they should not recruit unless absolutely essential."

The Government intends to maintain health and safety standards, in small companies as well as large, and has no intention of dismantling the whole framework of employment protection law, but it says it is unlikely that "any government would have introduced legislation of this precise nature in the economic conditions of the 1980s."

In further deregulating employment terms, the Government says "the rights of people in employment have to be balanced against the needs of those who are unemployed." The paper makes a number of fresh proposals in this area:

Industrial tribunals. Employers have reported considerable costs and management efforts in dealing with "ill-founded" claims to tribunals (which also lead to considerable public spending, though they cost the applicant little or nothing).

To counter this, the Government is considering making applicants pay a fee of perhaps £25, refundable if the case succeeds or if the claim is withdrawn before a date for a full tribunal hearing is fixed.

To bring the measure into line with the move in last year's white paper on the qualifying period for bringing unfair dismissal cases to a tribunal, the Government is extending the qualifying period of employment from six months to two years, after which employers have to put forward a detailed statement of reasons for dismissal if asked.

Maternity benefit. At present companies with fewer than five employees need not allow women to return to work to the same or suitable alternative job within 29 weeks of giving birth. That exemption will apply in future to businesses with fewer than 10 employees.

Single-sex training. The 1975 Sex Discrimination Act requirement for vocational training bodies to seek a ministerial designation before offering courses to one-sex only is to be removed. The aim is to encourage provision of special courses, such as training women in engineering, and other occupations where they are under-represented.

Grievance procedures. Companies with fewer than 20 employees will no longer have to provide written grievance procedures.

Trade union work. The Government says current legislation can result in employers having to pay lay union officials to take time off for activities unrelated to the terms on which the employer recognises the union, and that the range of industrial relations duties for which union officials have a statutory entitlement to paid time off should be more clearly defined.

The Government therefore intends to limit the range of duties to the scope of union recognition by the employer, though there will be no change in provisions allowing time off without pay.

Part-timers' employment rights. The Government is to raise the limits of hours which employees must work to qualify for employment rights, including unfair dismissal claims and redundancy payments. At present employees who work between eight and 16 hours a week are protected. The proposal is that they will have to have worked between 12 and 20 hours for five years to qualify in future.

Planning rules viewed as burden to be changed

THE GOVERNMENT is to further alter planning regulations it considers to be a burden on business and a restriction on employment—though the white paper insists that the planning system is not to be dismantled.

Among the proposed alterations, designed to make the planning system more efficient are:

- Change of use. About 50,000 of the 400,000 planning applications made annually are for changes of use of properties. The Government intends to modernise the 1948 Use Classes Order.

The Department of the Environment will next month publish a detailed, consultative document on the proposals, but the white paper says that "modernising the order will reduce the need for planning applications" while retaining control over changes of use which have environmental consequences. It said: "The intention will be to remove some significant obstacles to business adaptation where this can be done without unacceptable environmental results."

- High-tech Planning. Further amendments will be introduced later in the parliamentary sessions designed to improve the operation of the planning system. The most significant will be a measure under which where planning permission has been given for two or more uses of a property, one use may be succeeded by another without further planning applications.
- Outdoor advertisements. The Government will shortly be publishing proposals for general changes in outdoor advertising, but in particular, there will be proposals for directional signs for tourist facilities and attractions.

A simple matter of life and death.

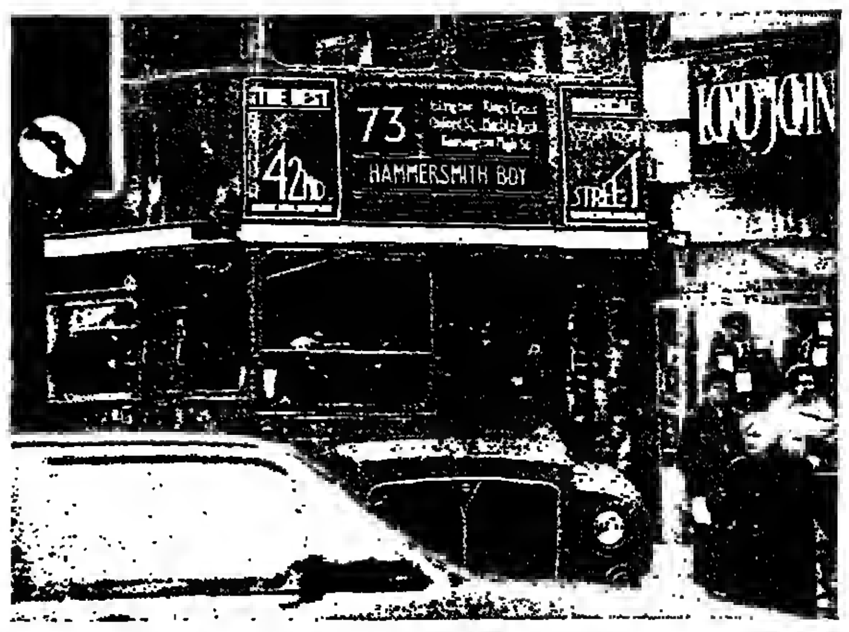
London, 10.32 pm.
Peak hour has just started at New Scotland Yard. During the next sixty minutes, the Central Command complex will receive almost five hundred 999 calls.

"Quickly, they're trying to kill each other down at the Hope and Anchor!"

A new Sperry computer system makes it possible to process four hundred such calls simultaneously. The core of the system is a four-processor, 16-megabyte Sperry mainframe with an average response time of 1.25 seconds.

In police work, a fast response can be, quite simply, the difference between life and death.

1. The 27,000 officers of the London Metropolitan Police cover an area of nearly 800 square miles.



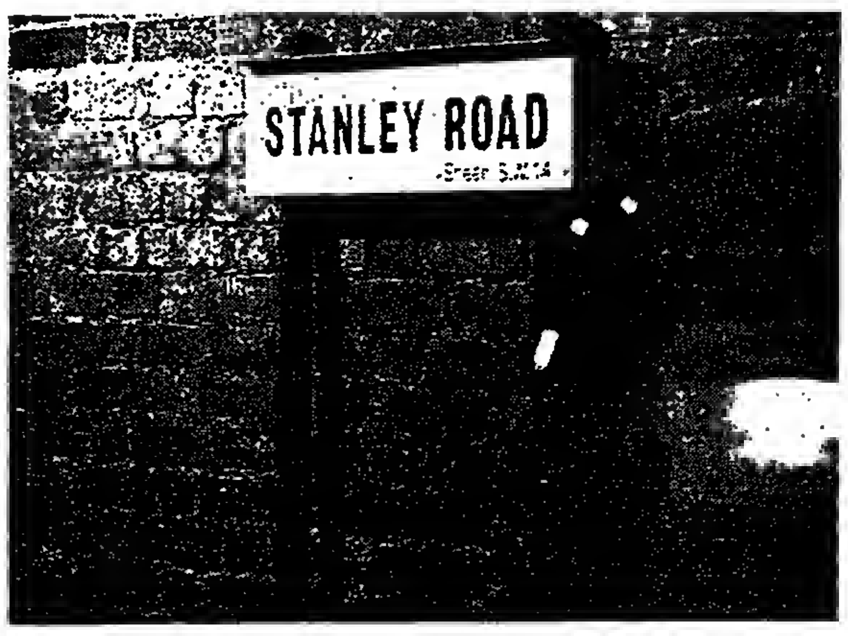
2. Ten million people live or work here. Every year, they make one million calls to the police. Four years ago, police communications were stretched to the limit.

3. The Metropolitan Police therefore invested in the largest police command and control system in the world. The system's designer and builder: Sperry.

4. The Sperry system integrates screens and printers from other manufacturers. When complete, the system will have over 800 workstations at 120 police stations.

5. In an emergency, speed is everything. But callers are often incoherent, excited or in a state of panic. The first priority is to put the call on the map as soon as possible.

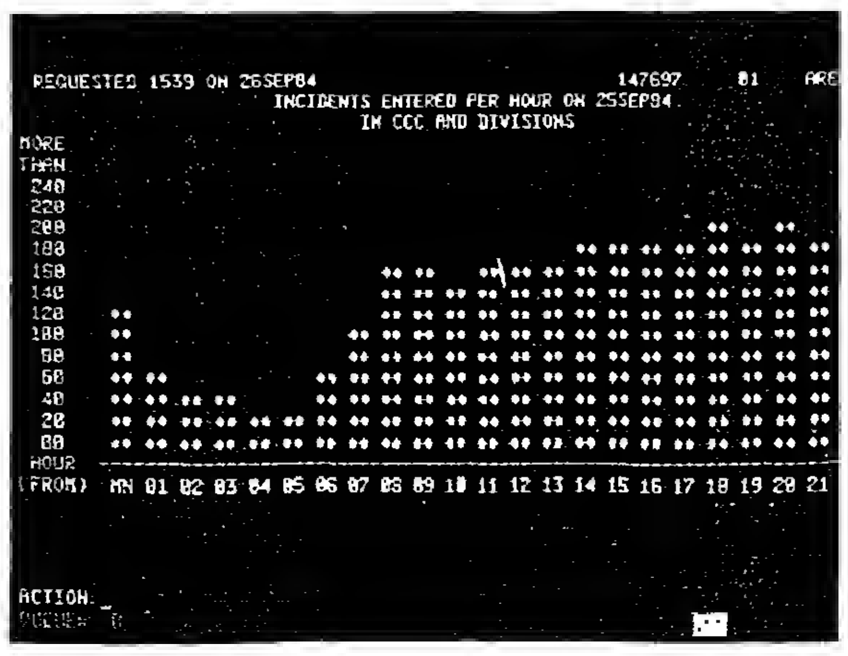
6. For this, the Sperry computers hold hundreds of facts and figures about every street, phone box, public building, school, park, pub or other location.



7. There are twenty-six Stanley Roads in London for example. The computers can identify instantly which one the call came from.

8. The system can even identify a local by its nickname and give the proper name. All this information is constantly updated by the officers on the beat.

9. New Scotland Yard operates over 4,000 vehicles. The computer assists the Central Command complex to identify the nearest patrol car to an incident and radio it to the scene.



10. The Sperry system also records statistics such as the given crime rate for a particular crime in a particular location. Vital statistics for deploying police resources.

11. To quote their Deputy Chief Engineer. "The Command and Control system has given us the chance to get our officers to an incident those critical minutes earlier."

A believer in focusing on a few key issues

Tony Jackson talks to Brian Smith of Metal Box about his plans for restoring the UK packaging group's fortunes

"THE EASIEST thing in life," says Brian Smith, the new head of Metal Box, "is to tell the boss about a problem and then sleep easily. I don't want to hear people's problems. I want to hear what they're doing about them."

The chief problem suffered by Metal Box is one familiar enough in British industry. The group has an international reputation for research-based innovation; its engineering skills are in demand around the world; but its profits record shows that it has had some difficulty putting its strengths to full commercial use.

Brian Smith aims to change all that. He has behind him 30 years' experience with ICI, a company with a deserved reputation for commercial hardheadedness as well as technical strength. Along the way, he has formed a number of ideas on how companies should be managed.

He is also, it would seem, in a hurry. In the nine months since he joined the company the workforce has been cut by 1,800, the board has been drastically reduced, headquarters at Reading is up for sale and the group has pulled out of can-making in the US.

More positively, the research and engineering assets are apparently being worked harder. A $100m joint venture in plastics is being set up in the US with the aluminium manufacturer Alcoa. Anheuser Busch, America's biggest brewer, has signed a deal to get access to Metal Box's can-making technology. Consumers Glass, one of the bigger packaging groups in Canada, is to license the manufacture of some of Metal Box's latest ideas in plastic packaging.

Swinging the managerial axe is plainly not new to Smith. "I grew up in the synthetic fibre industry, which went from boom to bust in 20 years. When I was put in charge of ICI's fibres division, it had 25,000 employees across Europe. When I left four years later there were 15,000, and my successor has it down to 7,500." (Over the period, ICI says, productivity has doubled and sales volume stayed the same.)

He went on, six years ago, to a plum job on ICI's main board—head of the Americas, North and South. "The South was the challenging part. If you can survive in those turbulent, difficult areas you've learnt a lot about management. You can't run that kind of operation from a distance—you need good people on the ground. The temptation is to jump in and do things yourself, which is the great indulgence of senior management."

The theme of delegation is central to his thinking. "The world has changed from the old pattern of growth offset by economic cycles, with economists at head office planning what would happen next. Now you have to send people out to the divisions, to react to the fast changes in the market place."

Some of this, he says, was happening at Metal Box before he arrived. "Profits were back to a pretty healthy level for any industry, let alone packaging, and the group was a lot more market-oriented. But going round, I got three simple messages—first, that despite the recovery people weren't sure where to go next; second, that too many decisions were referred to head office, and the response was then too slow; and third, a related feeling that overheads were too high."

One way of reducing overheads was particularly direct. A year ago, Metal Box had 11 directors, including the chairman. There are now only seven. "You have to start at the top," Smith says.

There have also been changes in the board's functions. "When I arrived," Smith says, "directors were running operations. If you're doing that it's very difficult to stand back and view operations dispassionately."

Each division is now run independently of the board, but has an "uncle"—a director charged with keeping an eye on it. Smith says: "The manager in charge of the division decides where his long-term ambitions are, then he sorts out his strategies with his uncle. Then the uncle comes and talks to the rest of the board about which options stand out. That kind of review focuses your commercial, financial and technical resources."

This is another recurring theme. "You must be clear where to concentrate your efforts, not spread them evenly," Smith says. "I'm a great believer in focusing on a few key issues."

Hugh Routledge

Brian Smith: "Research is too important to be left to researchers"

In particular, this applies to his declared aim of making the group more sensitive to the market, rather than being production-led (as it happens, this is a theme also being stressed at present by ICI's chairman elect, Denys Henderson).

"The modern game for a big packaging company," Smith says, "is finding out where the openings are, and driving your resources in." This particularly applies to the group's highly-respected research establishment at Wantage in Berkshire.

"The big question in having a research resource is whether the whole company is geared up to using it, or whether you wait till the technical people have it right. Speaking as a development chemist for my first ten years, the truth is that research is too important a resource to be left to researchers. You need to identify the four or five key developments on which the future of the company depends, and then make dammed sure you've got the commercial and financial as well as the research resources to push them through."

Perhaps unsurprisingly at this stage, he is not keen to dwell on what those key developments actually are. "Things like selling our can factory in the US were the immediately obvious things to do. Over the summer we'll be looking at the more detailed decisions."

However, the joint venture with Alcoa, which will develop a range of state-of-the-art forms of plastic food packaging, is plainly close to his heart. "The advantage of a venture like that is that it brings the company focus to bear on a project and pushes it through, and that the whole set-up is very precise—times and delivery dates are set up for research products. That's the difference between a research effort which is an indulgence, and one which is central to the company."

He does not deny that the company has a reputation for coming up with marvellous research ideas which then fail to have an impact on the market. But that, again, is a focusing problem, and once more Smith's wealth of experience at ICI suggests a relevant parallel.

"I had to halve the research establishment at ICI Fibres. Then I gave them four key things to work on. They said two of them were very difficult, and two impossible. I said—come back by Friday and tell me that again, because if so I don't need the other half. So they thought again, and one of those ideas eventually forced other nylon producers in the UK to close down."

It sounds as if the research establishment could be in for a hard time. "If you take some of our prototype products to retailers, the only question they ask is—how soon? Then you go to R & D and say—how soon? and they say—well, we've just got to do this and that . . . So you say—stop mucking about—*now*. If you've got a good, challenging, visionary objective which is achievable, it's amazing what a good research department can come up with—under the right pressure."

The emphasis on innovation is inevitable in an industry which is in a period of exceptionally rapid change, with retailers constantly demanding new packaging ideas and paying for them only grudgingly. But there is, again, an analogy from Smith's previous employer.

"ICI uses the heavier end of its commodity businesses to finance the high-margin businesses like pharmaceuticals and agrochemicals. As the whole business rolls itself forward, the process gains momentum. That's the key—which are the areas in which we can drive forward and specialise, and in which we can get those high margins."

That, of course, involves safeguarding the cash flow from the more basic businesses—in Metal Box's case, forms of packaging like the tin can and the more elementary kinds of plastic bottle. That in turn involves being cost-competitive; but there is another aspect.

"If you are recognised as an innovator, that in itself keeps your commodity business going. In ICI Fibres, a customer would spend 90 per cent of his money with you on bread and butter stuff, in the belief that you would bring up the new products each year for his new fashions. If you can bring in the new as a door-opener and be the most cost-competitive on bulk products, you've got the kind of balance I would dream of for a company."

Conferences

When incompetence is 'tantamount to fraud'

BY JOHN KIRKMAN

NOT LONG ago, I went to a two-day conference. The fee, travel, and hotel accommodation cost nearly £300.

The conference offered 20 papers. Of those, nine were rendered partly or wholly incomprehensible by poor design or inept handling of visual aids.

Of the 20 speakers, 12 overran their allotted time, so the programme on both days fell behind schedule. To cope with this, the chairpersons asked some speakers to cut short their planned presentations. They did. With the other paying customers, I shall never know what I missed. I do know, however, that I did not get the full 20 presentations I was entitled to expect. Incompetent presentation is tantamount to fraud.

Here are extracts from my notes on that conference.

Speaker 1 Got slides out of sequence with talk, distractingly putting them up before she reached the relevant point in her script. Read inexorably through the script, stumbling over written word-clusters she could not articulate.

Speaker 2 Put up transparencies on overhead projector, with comment: "You won't be able to read these." Correct! Had an electronic watch that beeped at 15 minutes; commented that the beep meant time was up; went on speaking. Over-ran by 10 per cent.

Speaker 3 Used first five of allocated 15 minutes to tell an anecdote not relevant to talk. Over-ran by 27 per cent.

Speaker 4 was warned twice by the chair about time to stop; so he spoke twice as fast to try to finish, with slides whistling to and fro at a rate that made reading impossible. He confused himself as well as us by putting up a slide that "should not have been there." Over-ran by almost a third.

Speakers 2, 3 and 4 all began by stressing what they could not do in 15 minutes, thereby reducing substantially what they *could* do.

Things got worse. One speaker began by belittling himself and insulting us: "I will just put up this slide to keep you occupied while I go through the boring facts." He offered an example, but could not find it: "I have some figures somewhere . . . (fumbled in notes) . . . but I can't find them, never mind!"

Day two brought no relief. We were offered overhead transparencies made by photocopying A4 pages in a small typeface. One illustration, 11 columns x five rows of figures, was put up with no comment other than: "There are the figures." I was sitting about half-way back, 50-60 ft from the screen. The figures were utterly unreadable. The edifice of the speaker's argument came crushing down. My comprehension never emerged from the rubble.

> Most presenters at the conference had made little effort to learn how to protect their own reputations and those of their employers

One speaker's monotonal mumble defeated even the halter microphone he was asked to wear because we could not hear him. He misunderstood the chair's warning about time, and stopped three minutes early. Blessed relief!

Another speaker did not know whether or not he had a slide to illustrate his point: "I think we have a slide for this. It is slide six. Oh no, sorry. Well, we will go on." How were we supposed to follow, if he himself was lost?

My notes have favourable comments on only three speakers, and those notes make an important point: the value of being simply competent. My comments on speaker eight illustrate that point: "Vigorous, organised, enthusiastic, clear. Content not new or exciting, but mere competence of presentation made it seem easily the best so far."

I knew before I went to the conference that the presenters were not professional lecturers, so was I expecting too much? I was not looking for outstanding oratory, merely for competent presentations, constructed for the periods allocated, and delivered with simple clarity.

It is possible to *learn* to be a competent speaker. Competence (not brilliance, but competence) rests more on acquired skills than on inherited flair. But most presenters at this conference had made little effort to learn how to protect their own reputations and those of their employers.

I am not so naive as to expect all conference papers to give me new information; I do expect to be treated with courtesy. Speakers who have not prepared presentations to fit the times they have been allocated are thumbing their noses at the conference organisers and the audience. Illegible aids are visual signals of a dismissive attitude. Inaudible mumbling or high-speed gabbling shows similar unconcern (contempt?) for the audience's well-being. Speakers who cannot plan and deliver talks competently should decline invitations to speak.

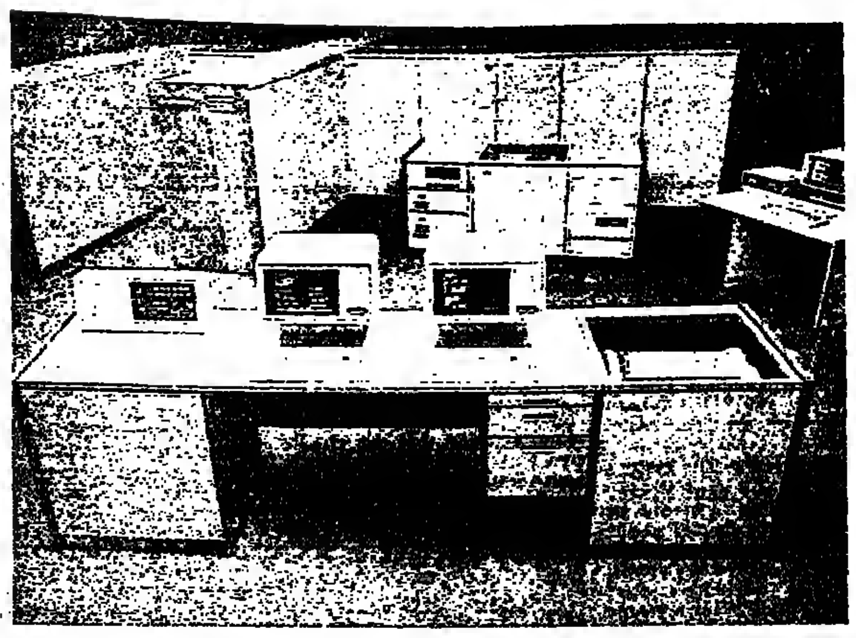
Do I hear murmurs of concurrence? If so, let those murmurs swell to loud discontent at meetings in future. Next time a speaker puts up an unreadable slide and asserts: "As you can see . . .", speak up, with a polite but loud: "Oh no I can't." Next time a substantial proportion of a conference's material is inaudible, illegible, or cut because of "shortage of time," ask for a refund.

Of course, I do not need to remind you (do I?) never to affront and confuse your audiences. If you have been through days similar to those I have described, you have seen the advantages of being simply competent. It is not difficult to be outstanding in those circumstances!

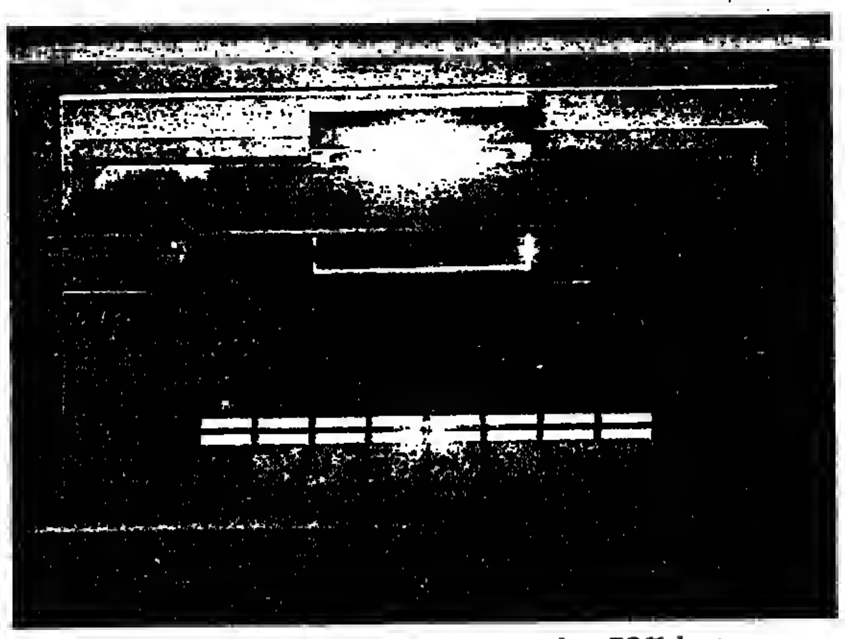
Were you wondering who ran the conference I have described? It was an organisation which specialised in information management.

John Kirkman was formerly director of the Communication Studies Unit in the University of Wales Institute of Science and Technology, Cardiff. He now helps professional people develop communication skills.

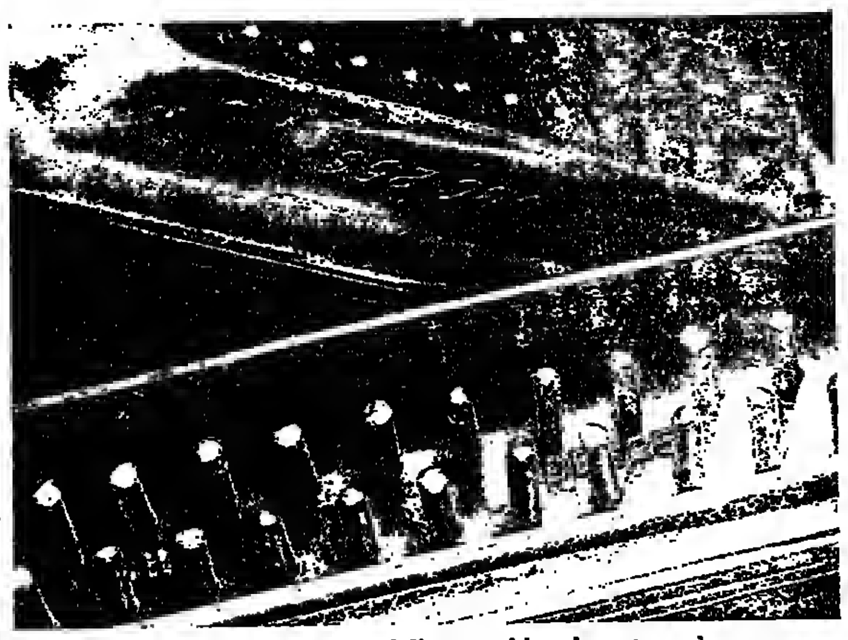
Sperry offers you the first real alternative.



MAINFRAME COMPUTERS. In 1946, Sperry delivered the world's first computer. Today, we have the second largest base of installed mainframes in the world.

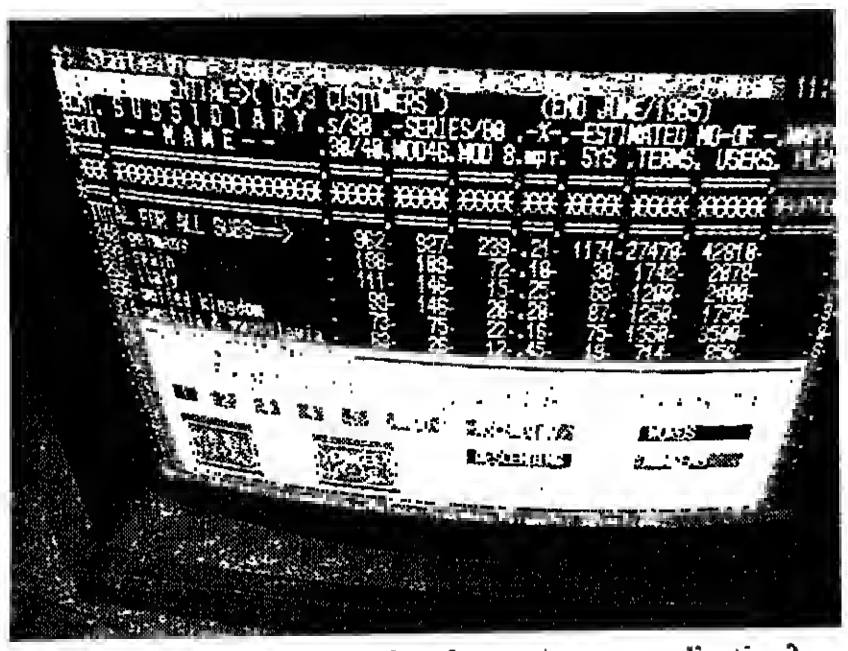


MICRO COMPUTERS. Our fastest growth – 58% last year – is in micro computers, from multi-user PCs up to supermicros more powerful than our smallest mainframes.

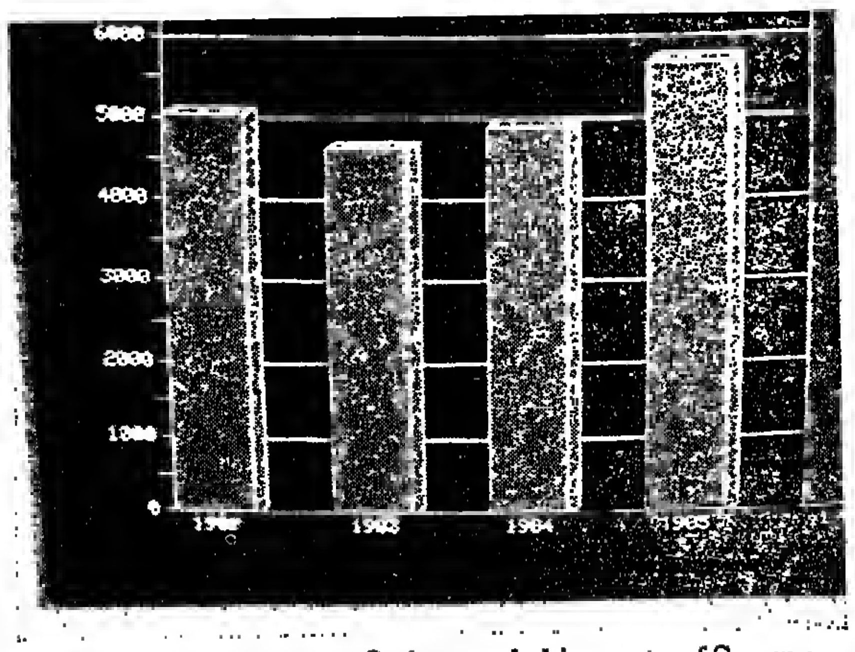


NETWORKS. Sperry built airline and bank networks as early as 1964. We can connect with small computers, big computers and even non-Sperry computers.

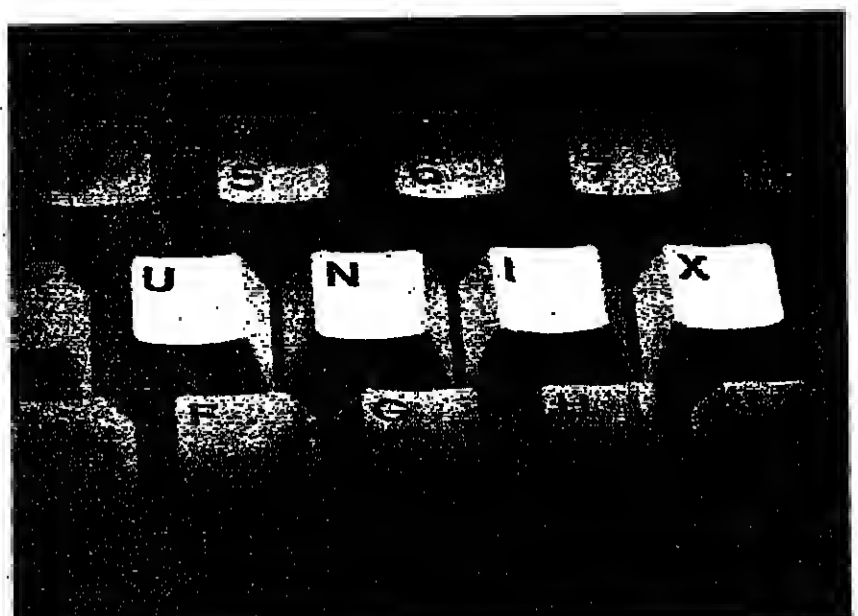
OFFICE AUTOMATION. In the overcrowded battle for the desktop, Sperry has already captured a significant share of the market for integrated office systems – more than most "specialists".



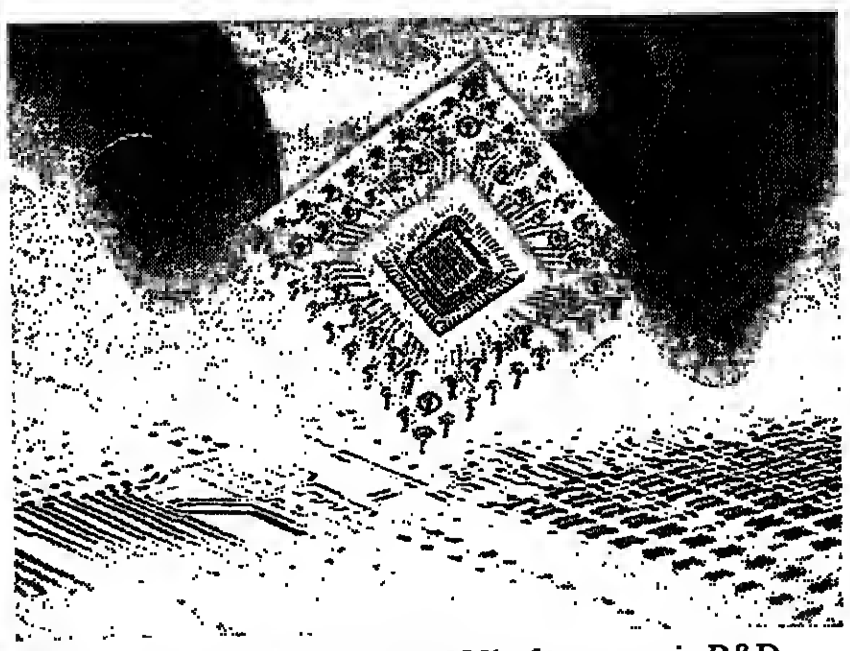
MAPPER. Do you want to develop your own application? This end-user language can turn you into a programmer in no time. 250,000 people around the world use it.



FINANCIAL STRENGTHS. Orders and shipments of Sperry computers are at a record high. Over the last three years, our revenues grew by 50% and profits tripled.



INDUSTRY STANDARDS. A standard operating system like UNIX™ lets machines from competing suppliers work together. Sperry computers, from PC to mainframe, run UNIX.



TECHNOLOGY. Sperry invests 12% of turnover in R&D – highest in the industry. One of last year's 463 projects was to make a PC work with Chinese characters.

SALES AND SUPPORT. Sperry's products are sold and serviced by 77,000 people in 50 countries. Last year, 51,000 users were educated at 36 Sperry Training Centres.

INDUSTRY CENTRES. These 11 international centres create special applications in areas like manufacturing, banking, airlines and artificial intelligence.

UNITED KINGDOM. Sperry is one of the country's largest computer companies with a network of branch offices and over 100 dealers nationwide. Customers include TSB, Abbey National, RAC and the Metropolitan Police.

Companies don't do business, people do.

Right now there is a Sperry person waiting for you to call (01) 961 3616. He or she will send you more information about our company and the products we sell.

Ask for a technical report on the story from the previous page, if you'd like one.

Or talk directly to a Sperry salesperson, a Sperry consultant, or a Sperry training expert.

Whatever your computer problem, our people are interested in listening to you.

Sperry Ltd., Sperry Centre, Stonebridge Park, London NW10 8LS.

SPERRY

UNIX™ is a trademark of AT&T Bell Laboratories.

TECHNOLOGY

Paul Taylor, in New York, on the innovative driving system from the US which looks set to generate a multi-million dollar market

Electronic power is put behind the steering wheel

ELECTRONICS have been finding their way into car and truck passenger and engine compartments for years. But the last major advance in automotive steering technology, "power" steering, took place 35 years ago—and was based on the somewhat less glamorous hydraulic pump, hoses and fluid.

Recently, however, TRW, the US$6bn-a-year US-based diversified high technology products and components group, has claimed what it describes as a "revolutionary breakthrough" in automotive steering.

The group, already the acknowledged independent manufacturing leader in power rack and pinion steering gears, says its "Powertronic" *electronically-controlled* steering system will replace the traditional hydraulic power steering system and should mushroom into a multi-million dollar-a-year business by the end of the decade.

The new system the US group has developed monitors steering wheel movements through a sensor mounted on the input shaft of the standard rack and pinion steering system. Directional and load signals picked up by the sensor are *processed* by a controller—based on a 16K eprom (electrically programable read-only memory) chip—and fed to an electric motor which provides the power *assisted* steering. The system responds instantaneously to driver actions.

TRW has already invested $15m in the Powertronic system, under development since 1974 when Robert Bayle, chief engineer in the group's commercial *products* division *in* Paris designed and patented an electrically powered rack and pinion steering unit.

Mr Bayle's prototype featured a belt-drive between an externally mounted motor and the pinion gear and, as expected, encountered several problems including an unacceptable power loss. *These problems* were overcome, says Mr Bernd Blankenstein, TRW's group vice president in charge of steering components, largely as a result of technology transfers—"mostly through exchanging people."

The development process ultimately involved more than 15 operating *units within* TRW but centred on three research and development facilities, one in Europe, another in Sterling Heights, Michigan and a third in Japan. Along the way, *TRW* picked up three US patents and has applied for another 12.

Among the technical challenges facing the engineers was the need to improve both sensor and high-current switching *technology*.

In the final version, as the steering wheel is turned magnets in the sensor detect the steering shaft movement and the *sensor converts* this *movement* into variable voltage levels. "The challenge," says Michael Behr, chief engineer in the transport electronics division, "was to perfect the sensor so that it could work linearly within certain tolerances and temperature *ranges* while maintaining integrity and quality."

But the heart of the system is its ability to change the rotational direction of the electric motor instantaneously and deliver the absolute amount of current necessary to meet *torque requirements*. Via the controller, the sytem can deliver up to 75 amps to the motor—the higher the current the greater the force exerted on the rack. Direction *of the turn is* handled by changing the polarity of the signal to the motor.

Working together, TRW says, the engineers managed to build an *internationally standardised* system that offers distinct advantages over hydraulic power steering systems. Among these, Mr Blankenstein cites—

● The ability to "*customise*" steering "feel." The Powertronic system can be *programmed* to stimulate the specific handling characteristics demanded by the carmaker. For example the tight responsive feel of the high-performance vehicle, or the full power assist *demanded by luxury car drivers*.

The system can also be *programmed* to provide *speed* proportional steering, providing maximum power assist when it is needed, most for parking or slow driving, and proportionately less power assist for high speed motorway driving where precise steering and *responsiveness are* desirable. Indeed, one model even allows the driver to select, using a dashboard switch, one of three handling options, full power, manual or speed proportional steering.

● Higher performance. Unlike the hydraulic pump which needs energy all the time, the electronic system only requires electrical energy "on demand." Therefore, its makers claim, it releases more horsepower and *delivers better performance*. A secondary feature is that since the power source is the battery and not an engine-driven pump, the electronic steering system *continues* to *provide* steering assistance even if the engine stalls.

● Greater efficiency. The system is roughly 25 per cent lighter than a hydraulic system—an *average* weight saving of about 7.5 lbs a car. It is also smaller requiring less under-hood space. Overall TRW estimates fuel savings over hydraulic systems of up to half a mile per gallon.

● Less maintenance. Since oil fluid leaks account for an estimated two out of every three warranty repair claims the electronic system, free not only of hydraulic fluid but also of belts, pulleys and pumps, *should substantially* reduce maintenance.

● Cost. Provided the system is produced in volume—something TRW expects to achieve by 1990—the company says the component cost to the car manufacturer will be competitive with hydraulic systems. It also reduces by 85 per cent the total number of pieces car makers must handle, while its modular design helps cut sub-assembly operations. Since it is shipped fully assembled and tested, TRW claims car makers assembly and testing time should be slashed. From the final customers viewpoint, fuel and maintenance savings will provide cost savings in the long run.

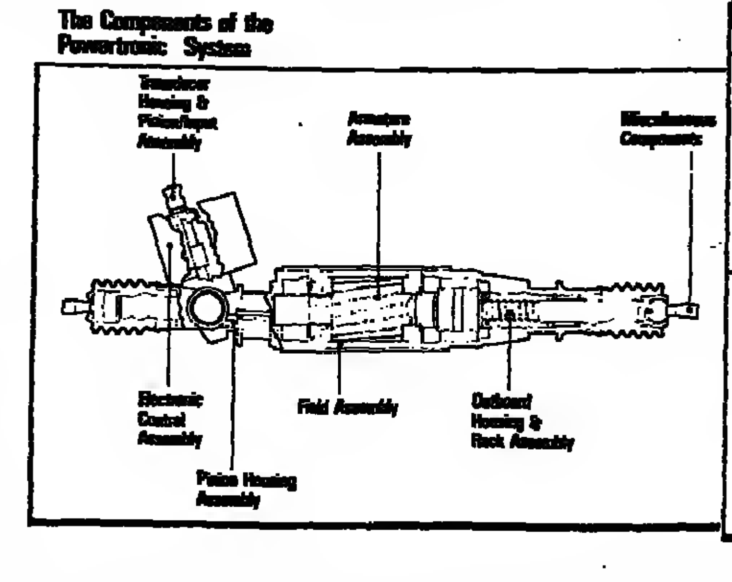
Overall, TRW is betting that its new system—in which it expects to invest another $85m—will win early contracts from the big automakers not only in the US, but *also in* Europe and Japan. The group is currently negotiating with six car makers and Mr William Price, vice president and general manager of TRW's steering and suspension division, says he expects to see the first commercially installed units on the road in the US in the 1988 model year, followed in *Europe during* the next 12 months.

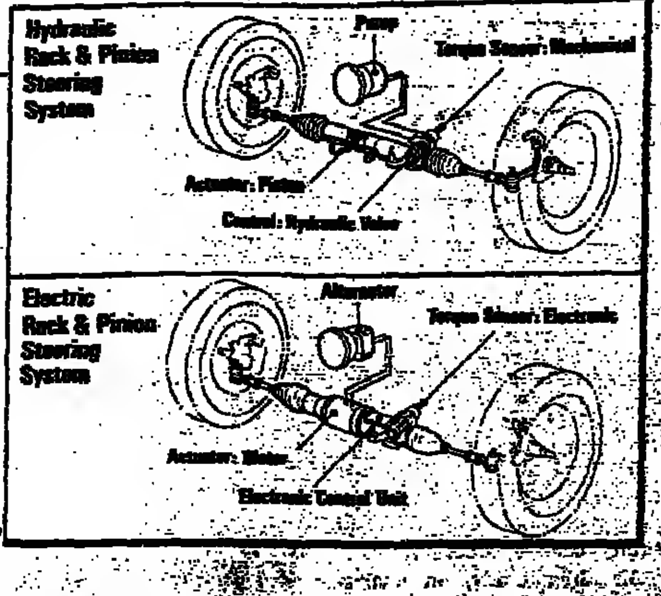
"We expect to produce 30,000 units for 1988 model year cars and that figure should grow to 500,000 units annually by 1990," he says.

Two years *later* TRW expects the North American market for electronically-controlled steering systems to reach 5m units. Currently the world market is worth about $25m a year and Mr Blankenstein says, "We are fairly confident we have a couple of years lead on the competition."

Initially the US group plans to produce the electronic steering system at its Rogersville, Tennessee, plant, but also eventually plans to produce the units in Europe and Japan.

The Components of the Powertronic System





Getting the measure of cargo

WORTH WATCHING

Edited by Geoff Charlish

CARGO VOLUME and weight measurement has become automatic at British Airways Cargocentre, London Heathrow, using an optical system called V-Scan.

Jointly developed by British Airways and Integrated Photomatrix, the Dorchester, UK, optoelectronics company, V-Scan consists of a conveyor spanned by a measurement arch and incorporating a weighing platform.

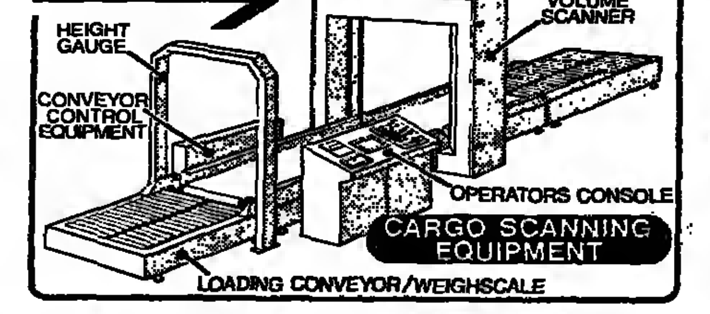
A package put on the input conveyor is first weighed and then carried through the arch at a constant speed. There, its height and width profiles at each moment are imaged by lenses on to single line arrays of tiny light sensitive diodes in the vertical and horizontal arch members. The data is passed to a computer which, by the end of the traverse, has worked out the exact volume.

The computer can also immediately calculate the density of the package so that the customer can be charged appropriately — by volume below a certain density, by weight above it. It can also build up a specific aircraft load. Results can be seen on a colour screen and the system also prints documents.

V-Scan, manufactured by Integrated Photomatrix, will be offered throughout the world by British Airways. More on 01-750 6224.

NETWORK MANAGEMENT systems from Avant-Garde Computing of New Jersey, US, are to be made available in the UK through British Telecom.

The first system on the market is called Watchman 2000. It provides company communications managers with detailed information to assess network utilisation, proposed new networks, terminal use, network availability and other network factors.



TANK LEVEL measurements are taken by bouncing microwave signals from the surface of the liquid in a new system from Saab in Sweden, distributed in the UK by Flow Measurement and Automation (04862 69011).

Called TankRadar, the unit makes no contact with the measured fluid and is suitable for use with very viscous liquids and in dirty and hot environments.

The instrument is self-checking and self-calibrating and there are no moving parts to go out of adjustment.

DIMENSIONAL CHECKING of machined parts in four axes (X, Y, Z and rotary) *can be carried out in a* programmed fashion in a computer-controlled co-ordinate measuring machine from Fette in Germany, available in the UK from Heckler and Koche Machine Tool Company, Milton Keynes (0908 606262).

Sold in two sizes, the machines can transmit measurement data back to a production line or flexible manufacturing cell computer. *The larger unit can handle* components up to 630 mm in diameter.

Kitchen design is brought into the comfort of the living room

KITCHEN DESIGN takes a new turn with an announcement from Sentor of Bath, UK, of a briefcase computer which uses touch-screen technology to compile layouts.

The salesman measures the kitchen, entering the dimensions of walls, doors and windows and the machine scales them to give plan and elevation views.

Planning is then a simple matter of choosing items from ranges of furniture and fitting them by touching the screen at the desired positions.

The press of a button will change the view from one wall to another. The customer can see the kitchen "growing" and changes can be made and discussed immediately. More on 0225 316924.

COMPONENT metallising to restore worn parts to their original dimensions has been made possible with a high degree of repeatability according to Selectrons of Waterbury, Connecticut.

Using a hand-held tool padded with absorbent material soaked in an electro-chemical fluid, parts can be "painted" to build up metal at the rate of about 0.002 inches per minute.

Selectrons claims these to be metallurgically sound deposits of metal, the deposit becoming an integral part of the component.

SURFACE MOUNTING of electronic components on printed circuit boards, usually associated with machines that can cost $100,000 or more, can be carried out on a small scale with a £3,000 device from Circuit Automation of Banbury, UK (0295 51911).

Made by Heeb in Germany, the unit has a carousel tray and a rack of component reels with dispensers from which components can be picked in sequence by an operator, using a vacuum pen, according to programmed coloured lights on the tray. On the same base plate is a board holding device and a hand rest to make placement with the pen easier.

CANADIAN RAILWAYS

Bernard Simon and **Robert Gibbens** on the troubles facing a pillar of Canadian history

Long haul to put CanPac on the right track

CANADIAN PACIFIC'S recent experience is a sobering lesson to managers who dream of stabilising corporate earnings through diversification.

A remarkably wide spread of resource, manufacturing and service interests has not prevented Canada's biggest conglomerate, and the largest company in the country after General Motors' local subsidiary, from falling on hard times.

Earlier this month CP reported a paltry first-quarter profit of C$8.4m (US$6.1m), or three cents a share, on revenues of C$3.7bn. Earnings were C$57.5m, or 27 cents, a year earlier.

CP has a liquidity problem, too. Its cash reserves have dwindled by C$67m in the past two years, despite a C$1.1bn increase in debt. Earnings generated by transport operations this year are unlikely to cover lower income from industrial and commercial investments. It will come as no surprise if the parent company cuts its dividend to help fund heavy capital spending. A major divestment, the first after more than two decades of expansion, is a possibility.

In some ways, CP retains the aura of an institution deserving more respect than a run-of-the-mill commercial enterprise. It is a pillar of Canadian history. As the builder of the first trans-continental railway in the 1880s, the company can claim credit for bringing the Province of British Columbia into the federation. Its stately hotels—The Chateau Frontenac in Quebec City, the Royal York in Toronto and The Chateau Lake Louise in the heart of the Rockies, to name three—are landmarks in many Canadian cities. An air of superiority permeated many aspects of CP's operations during a long period of *autocratic* management in the 1970s and early 1980s. The company commissioned its own workshops to make new windows for its head office above Montreal's Windsor station.

But CP's deteriorating financial performance has begun to raise questions even within the organisation about earlier management practices and *about* the overall direction of the company. Mr William Stinson, who took over as chief executive last year, insists that his stewardship "is going to be different. We've got one goal in mind, to get our return on equity back to where it was."

Mr Greg Liddy, an analyst at Merrill Lynch Canada, says that "a number of issues at CP have reached the pain threshhold. The probability of action being taken is increased when the person taking the action doesn't have to defend past decisions."

Railways remain the cornerstone of CP, accounting for almost a quarter of revenues and one-third of capital spending. Investment in rail modernisation reaches a peak this year, as work proceeds on a C$600m project to increase capacity through the Rockies, including a nine-mile tunnel, the longest in North America.

CP's rail operations have spawned many of its other businesses. Shipping services, a trucking company and Canada's second biggest airline have turned CP into an integrated, international transport company.

Finding a source of supply *for railway sleepers originally* gave CP its entree into the forest products business. Its subsidiaries, CIP and Great Lakes Forest Products, are leading pulp, newsprint and fine paper makers.

A British Columbia railway company, bought by CP in 1898, also owned a lead smelter, thereby sowing the seeds of Cominco, one of the world's biggest lead and zinc producers. Another subsidiary, Algoma Steel, produces steel rails.

PanCanadian Petroleum, 87 per cent owned by CP, is one of Canada's leading oil and gas producers. Much of its reserves lie under land acquired many years ago by the railway.

Marathon Realty started off managing CP's vast tracts of real estate, ranging from prairie farmland to downtown office space. It has since become a substantial developer of shopping centres, office buildings and industrial parks throughout North America.

Mr William Stinson, chief executive, aiming to get return on equity back to 15 per cent

In other cases, links with the railway are more tenuous. Oil and gas services, flour milling, *telecommunications, chinaware,* animal feed and building materials are all part of the CP firmament. The company and its subsidiaries employ 123,000 people.

This wide array of businesses has taken several heavy knocks in the past few years. Mr Stinson says bluntly that "we're getting hammered in the downcycles to a greater degree than is prudent." Low commodity prices have pushed Cominco and the forest products companies into the red.

Deregulation and sluggish traffic have taken their toll of CP's transport businesses. Canadian Pacific Airlines suffered a C$27.4m loss in the first quarter of 1986, more than double its deficit a year earlier.

Container and bulk shipping operations have been hit by excess capacity and cut-throat competition, especially on trans-Atlantic routes. CP Ships is looking for buyers for its 30 remaining bulk carriers.

Oil and gas contributed more than three-quarters of CP's 1985 earnings, so the oil price slump is a big blow. Mr Stinson initially hoped that the negative impact on PanCanadian Petroleum would be offset in time by the benefits of cheaper oil for CP's transport operations and by a general economic upswing.

These hopes are unlikely to be realised. North American refineries have used the opportunity of lower raw material costs to widen *their margins.* In an increasingly competitive environment, transport operators are having to pass some of the savings from lower fuel costs on to their customers.

On the other hand, PanCanadian is taking the full brunt of the oil price slump. First-quarter earnings dropped by 35 per cent. The dividend has been cut from 25 cents to 15 cents.

Algoma Steel, already suffering from lower demand for heavy plate, is another casualty of the drop in oil prices. It is a leading supplier of tubular products to the oil drilling industry. After showing signs of recovery last year, Algoma suffered a C$16.2m loss in the first quarter.

Mr Stinson is vague about CP's overall strategy for achieving his target of a 15 per cent return on equity. He says the company will do "whatever it takes to get there." Higher borrowings, new equity issues and asset disposals are all being considered as ways of improving liquidity.

A four-year plan has identified some candidates for divestment. Among those mentioned most often by analysts is AMCA International, a heavy equipment and engineering company in which Algoma has a *34 per cent* interest and CP a direct stake of 16 per cent. Mr Stinson says that PanCanadian and Marathon are definitely not for sale.

On the other side of the coin, he is keen to expand CP's foreign operations, especially in the US. Marathon has become increasingly active in the US property market. PanCanadian spent C$70m on reserves in Wyoming last year and is keen to buy more. Hotels and industrial *minerals* are other possible areas of cross-border *expansion.*

CP took the first step towards streamlining its corporate structure last December by dismantling Canadian Pacific Enterprises, the holding company created in the 1960s to oversee the non-transport businesses. At the same time, CP Rail became a more autonomous unit with its own chief executive and chief operating officers.

These moves will enable Mr Stinson—himself a former railway man—and his small team of senior managers to take a bird's eye view of *all CP's* interests.

But CP remains an unwieldy animal. The public relations department employs 13 people in its photographic laboratory. While Mr Stinson and his chief financial officer are based in Montreal, the company's chairman, two group vice-presidents and the vice-president for administration work 2,000 miles away in Calgary. The Treasurer lives in Toronto.

While outsiders are confident that recent moves are a step in the right direction, much more will be needed to restore CP's pre-eminent reputation in Canadian business.

Blue Circle's Mexican cement affiliate is outstripping its competitors, reports **David Gardner**

Tolteca finds a formula for riding the recession

THE EARLIEST and most generalised economic reaction to last September's devastating earthquakes in Mexico City was that if tourism would inevitably be damaged, then at least there would be a reconstruction boom.

This, the thinking went, would provide e welcome boon for the cement industry which, having trebled its capacity in the decade before Mexico'e financial collapse in 1982, was burdened with enormous overcapacity.

Not so. The oil market bas collapsed and with it all hope of aoy kind of boom as the public sector pulls in its horns and the country braces itself for sharply negative growth.

The cemeot companies last year in the main saw their sales grow both above the corporate average and ahead of inflation. But they beve slipped sharply back in real terms since last October.

The exception — at least among the listed companies which provide quarterly financial information — is Grupo Tolteca, which appears to have hit on a workable formula for surviving o recession.

Tolteca, Mexico's secood largest cement gronp, is a joint venture between Blue Circle of the UK, which has a 49 per cent stake, and Mexican interests led by ICA, the country's biggest civil engineering group. It has eight cement plants in all with the capacity to produce 6.3m tonnes a year, and has some 20 per cent of the Mexican market. It also has 37 per ceot of the ready-mix concrete market, selling nearly 1.5m tonnes last year.

The Tolteca formula combines what its executives call the "ant factor" — of millions of small buyers — and exports.

About 45 per ceot of the industry's business is with the public sector, where sharp real cuts in capital spending far outweigh reconstruction activity. Bnt Tolteca only does 3 per cent of its business with Government: 75 per cent of its sales take place ex-factory or depot through a network of 700 distributors who sell it by the bag.

Hence the "ant factor," which embraces the enormous, middle class home extension market (which the recession has helped at the expeose of new conatruction), and the numerically mnch larger market of the poor, those making the quantum leap from cardboard and corrugated iron to breeze-block and mortar. Tolteca itself provides o bandbook and a wealth of DIY manuals, some in comic-book form.

This is also a cash-on-delivery area of the market, wbereas dealing with contractors involves costly payments delays at a time of high inflation — expected to exceed 70 per ceot this year—and a fast depreciating peso for those who financed their pre-1982 expansion with dollar debt. The Governmeot, for example, habitually pays from 90 to 180 days late, earning itself aubstantial price cuts in real terms.

Doing a lot of business with the large contractors, says Mr Jim McColgan, head of the group's cemeot division and one of two Blne Circle members on the Tolteca board, "is good in o boom, bad in a bust."

Of the main listed companies, Cemex, the largest group with about a third of the market, grew in nominal terms 93 per cent last year, but sales rose only 60 per cent in the first quarter of this year.

Apasco, a joint venture with Holderbank, the big Swiss cement concern grew 76 per cent last year though only 41 per cent in the first quarter—well below inflation. This is despite clinchiog the sole contract to supply the populous state of Mexico, north of Mexico City, where much of the earthquake reconstruction currently taking place is located.

Tolteca's first-quarter sales growth on the other hand was roughly par with inflation at 65 per ceot, after an 83 per cent rise last year.

Though it expects a contraction in domestic sales, it nevertheless is looking for a 7 per cent rise in overall volume sales by increasing exports some two and a half times.

Boosting exports is the obvious solution to an industry with over capacity problems. In 1972, the already fast-growing Mexican cement industry produced 9.7m tonnes. With the oil and credit-fired boom of the late 1970s, the industry reached an agreement with the Government to make Mexico self-sufficient in cement in exchange for tax breaks and the removal of price controls.

Huge investment in new plants went ahead, raising capacity to 19.6m tonnes in 1981 and 28.6m tonnes in 1982, coincident with Mexico's financial crisis. Total registered capacity is now 32m tonnes.

Tolteca built a $200m new fscility in Hermosillo, Sonora, near the Arizona border, and when the crisis hit was close to completing the $200m expansion of its plant in Zapotiltic, Jalisco, on the Pacific Coast.

Though other competitors such as Cementos Anahuac led the way on exports, Tolteca has been able to convert domestic slack into invaluable foreign sales, both for the company'a cash-flow and the country's balance of payments.

In 1983, only 3 per cent of Tolteca production went abroad. This year, it expects over 20 per cent of its output to be sold in Arizona and California.

This structural switch has been possible through a combination of factors:

● Expansion has taken place in geographically strategic locations for access to key markets in California and Arizona. Spanisb and Greek producers have undercut prices on the east coast, while Tolteca's new plants are highly competitive in its areas of the US market, wbere many producers still use the older, energy-expensive "wet process," and have higher labour costs.

● Tolteca's export drive has been complemented by Blue Circle's expansion in the US, and in particular by its acquisition of five ready-mix concrete companies with 14 plants in Arizona, creating a platform and, as Tolteca's finance director Mr Hugh Beevor describes it, "an image of solidity."

● ICA, Blue Circle's joint-venture partner, was unusually export-conscious by the standards of Mexican industry, which has grown up behind firm protectionist barriers. "They were more in tune than we were," says Mr Beevor, "and felt that the country needed exports at whatever cost."

● The gradual growth of an export mentality at Government level, which has been reinforced by the oil market collapse. In the last 12 months but above all this year, Mexico has liberalised trade and started putting together a major export incentive programme.

TOLTECA'S GROWTH RECORD

	Production volume (tonnes 000s)	Exports (tonnes 000s)	Exports as % of output	Net sales pesos	Net profits pesos
1983	3,700	113	3.0	54,817m	−2,777m
1984	3,829	343	9.0	62,243m	3,040m
1985	4,439	418	9.4	72,076m	9,834m
1986*	4,765	1,025	21.5	83,000m	—

* Estimated

Sales and profits in constant 1985 pesos except for 1986 projections which are inflation adjusted.

THE PROPERTY MARKET BY WILLIAM COCHRANE

NEW YORK CITY

Decision time on the waterfront

NEW YORK professionals say that the next ten to fifteen deys will decide on the developer for the last major site in downtown Manhattan, slated to produce 1½m sq ft of office space to supplement the city's congested financial centre.

The "site" is the airspace above the Staten Island Ferry terminal and the adjacent Bettery Maritime building, at the southern tip of Manhattan Island and adjacent to the financial core area.

Proposals for projects costing between $300m (£197m) and $400m heve been made hy Jack Parker Construction, best known for its hotels and residential developments; by Howard Ronson's HRO International whicb reckons to be the front runner; and (in two separate proposals) by South Ferry Associates, a consortium reputedly representing well known American, West German and Japanese interests.

The cost figures would include reorganisation of the local street system, the renovation of tbe old ferry building and transport facilities and the inclusion of a cultural component which could take in performing arts and conference centres.

Ambitions

The development has been described as New York's most ambitious river front scheme to date. This highlights the way the city's real estate developers and politicians heve turned their sights on the huge expanse of underutilised water frontage which has fallen into misuse since meritime commerce died in the city.

The waterfront party has been led by Steve Spinola, former chief of New York's Public Development Corporation who moved this week to the private sector as cheirman of the Real Estate Board of New York. They aim to open up real estate development opportunities, provide financial benefits for the city and help relieve congestion problems hy reectivating the use of ferries.

So far, says Mr Spinola, the revival of New York City's 578 miles of river frontage—to Manhattan, Queen's and the Bronx—involves an estimated £4.3bn of real estate development expenditure.

There could he a lot more to come. An estimated $20bn of real estate development expenditure has heen approved to date for 18 miles of New Jersey waterfront, opposite Manhattan on the other side of the Hudson river.

New York developers think some of this may he more apparent thao real. Larry Wyman, execulive vice president of HRO International thinks it as least as logical that overspill development from Manhattan should locate in the other New York boroughs of Queen's and the Bronx which, he says, are easier to get to than New Jersey.

"We have just about run out of developmeot sites in lower Manhattan," he said yesterday. "The Staten Island ferry site was really the last place downtown which was evailable, and could accommodate up to 1½m sq ft of offices."

Concentration

In occupational terms, he said, the result has heen "a tremendous concentretioo" of front office staff in the high-rent financial district, front office including the dealers end high level executivea who like to congregate, and be seen in Wall Street.

HRO, meanwhile, is making hay. A few weeks ago it reported that it had leased 558,000 sq ft of its 1.2m sq ft Financial Square building in lower Manhattan, in a block bounded hy Old Slip, South Street, Gouverneur Lane and Front Streel, to Thomson McKinnon. Financial Square will be completed in the firsl quarter of next year.

This week it said that its 395,000 sq ft Broad Financial Center, bounded hy Broad Street, Whilehall Street, Bridge Street and Pearl Street in the heart of the financial district, will be ready in Seplember. The Broad Center is a joint development with Aetna Life Insurance.

The Center was hailed in New York this week as a "smart huilding" for the small office tenant. Local observers say that most developers provide buildings which cope with computer-based office operatioos and telecommunications systems hare been catering only for large space users.

Broad Street, said Mr Wyman, will he offered in multiples of 15,000 feet. Within its 30 storeys, it offers 27 column free office floors of 15,000 sq ft eech. Every fifth floor has a 12 ft high finished ceiling height, to allow for trading or other special uses. The rents start at $40 a sq ft, reflecting the quality of the spece.

Social considerations come into the Staten Island ferry site development. All of the developers competing for the site hare hed to include a cultural element such as a condition of the tender. His company's contribution, the performing arts centre, would he operated on a non-profit hasis hy community groups in New York City.

The timlng of this developmenl is more difficult to tie down than tbat of the other two. Mr Wyman: "We are very confident that we are going to win this one; hut completing it could take anywhere from four to six years."

"If it were only us, and we could get on the ground tomorrow we could finisb this building by the end of 1988," he said. "However we expect complicated negotiations with the city to ensure after the award of this development, and the final completion date could he as late as 1993.

Aberdeen boost for Bredero

BREDERO PROPERTIES, due to go public in a matter of days, got a timely boost this week as the John Lewis Partnership said formally that it would be opening a new department store in Aberdeen.

The Partnership is acquiring the Norco department store in George Street, immediately adjoining the site for Bredero's 270,000 sq ft Bon Accord Centre.

On obtaining vacant possession of the Norco building next year it aims to carry out a major extension and refurbishment programme to provide 200,000 sq ft of modern department store space.

Most shopping centre operators would give their eye teeth to be anchored by a John Lewis department store. Bredero's Bon Accord links with two other retail/residential developments of its own in George Street, and effectively links John Lewis to the recently extended 90,000 sq ft Marks & Spencer store via Great Universal Store's small, but highly successful St Nicholas Centre.

Allan Chisolm, Bredero's managing director, was "delighted" this week. And so he should be. The John Lewis move should consolidate the shift of Aberdeen's prime shopping axis, slightly to the north east of the traditional Union Street pitch.

Upward drift in average yields

HILLIER PARKER and the Investors Chronicle say that the average yield for property continued its upward drift over the quarter to May 1986, rising by 0.2 percentage points to stand at 7.5 per cent, the highest level since 1975.

The increase was due mainly to the office sector, says Hillier Parker research chief Russell Schiller, although there were small rises in all sectors in Scotland.

● The business park phenomenon proliferates. The Hoo Estate's Capability Green development got planning consent this week for 900,000 sq ft of light industrial and office space, with the office content restricted to a maximum of 250,000 sq ft on an 85 acre site abutting Junction 10A of the M1.

Agents Fletcher King, also retained as project managers, highlight the benefit of the 17-acre Kidney Wood in the scheme's landscaping. Meanwhile, Trafalgar House reports planning permission for its own £30m, 350,000 sq ft business park fronting the M3 at Fleet, Hampshire.

● Martin Landau's City Merchant Developers completed its £18m management buyout from Guinness Peat Properties this week. Getting his income from a £15m investment portfolio, development profits and project management fees which cover the bulk of his overheads, Mr Landau is putting immediate emphasis on building up CMD's net asset base.

● PosTel is funding Speyhawk's latest office development, the £8m plus, 37,500 sq ft Lion Court at Old Isleworth, on the banks of the Thames in West London.

● Jones Lang Wootton is not going to change its philosophy for the "Big Bang," or any other reason. Personal client contact, first class and fully independent service will remain prime considerations, says Keith Douglas-Mann, chairman of the London partnership and JLW's International Committee.

The firm's new UK Property report says that 1986 is proving to be a critical year in the evolution of the UK commercial property market, but that commercial property is no more isolated from the broad economic and commercial shifts under way in Britain than any other industry.

● King & Co note that in the south east, a number of "Hi-tech" schemes have just come on to the market, and await occupiers.

Their latest industrial floorspace survey shows new buildings in the south east accounting for 18.69 per cent of the total available in mid-April compared with 16.8 per cent last December.

Project managers criticised

JOHN BRANDENBURGER, architect and a founder member in 1963, of Arup Associates thinks it is "undesirable" for clients to appoint outside project managers. "Anything that comes between work and client is unproductive," he said this week.

Mr Brandenburger was introducing Project Client Counts, within which he and Courtenay Blackmore—the latter with 20 years at ICI and 15 at Lloyd's of London—will advise clients embarking on major building projects, and assist them in carrying it out.

Some clients appoint a project manager to take responsibility on their behalf for all aspects of the design and construction of a building. Project management is currently a fashionable source of fee income for surveyors, aspiring property companies and many more.

Mr Brandenburger says that this is wrong and that he would not defend the architect's traditional role as team leader on a project.

"Experience has shown that the success of a project is conditioned by the quality of the decisions taken by the client," he maintains. "You can buy all the advice in the world but you can't buy decisions."

He thinks that client companies would do well to make project management a plum job for senior staff.

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RCS Nanterre B 542 039 532

Participating Stock April 1984 of ECU 1,000 each

Ordinary General Meeting to be held on June 12 1986

AGENDA

The owners of participating stock April 1984 of ECU 1,000 of Compagnie de Saint-Gobain are informed that the Ordinary General Meeting will be held on June 12, 1986 at 3.45 pm at the registered office of the Company, "Les Miroirs", 18 avenue d'Alsace in Courbevoie (92400). This meeting will enact on the following agenda:

—Board of directors' report on the company's operations for financial year 1985

—Auditors' report on financial year 1985's accounts and elements for fixing the participating stock yield

—Fixing the income of the masse and allied representatives

—Power for formalities

To attend the meeting the participating stock owners shall have to provide a blocking affidavit issued by the trustee and in order to appoint a deputy at the meeting they will have to add a proxy to this affidavit.

THE BOARD OF DIRECTORS

TIGER OATS LIMITED

(Incorporated in the Republic of South Africa)

Registration No. 05/01421/06

NOTICE TO HOLDERS OF 5.5% CUMULATIVE PREFERENCE SHARES

NOTICE IS HEREBY GIVEN that dividend No. 54 of 5.5% per annum, equivalent to 5.5 cents per share, in respect of the half year ending 30 June, 1986, has been declared payable to the holders of the 5.5% Cumulative Preference Shares registered in the books of the company at the close of business on 6 June, 1986.

The transfer books and registers of members will be closed from 7 June to 13 June, 1986, both days inclusive.

The dividend is declared in the currency of the Republic of South Africa, and warrants in payment thereof will be posted to shareholders by the company's transfer secretaries in South Africa and in the United Kingdom on or about 7 August, 1986.

The effective rate of non-resident shareholders' tax is 15.525%.

Registered shareholders paid from the United Kingdom will receive the United Kingdom currency equivalent on 25 July, 1986 of the rand value of their dividends (less appropriate taxes).

By order of the board

M. YUDELOWITZ, Secretary

23 May, 1986

Registered Office: 15th Floor, Wesbank House, 222 Smit Street, Johannesburg 2001

Transfer Secretaries: Rand Registrars Limited, 2nd Floor, Northern Parkway and Handel Road, Ormonde 2091, PO Box 52549 Saxonwold 2132

United Kingdom Registrars: Hill Samuel Registrars Limited, 6 Greencoat Place, London SW1P 1PL

NOTICE TO BONDHOLDERS

City of Copenhagen

8½ per cent 1979/1991 Bonds 25,000,000 European Units of Account

Pursuant to the provisions of the purchase fund, notice is hereby given to bondholders that nominal UA784,000 have been purchased for the purchase fund during the twelve-month period from May 15, 1985 to May 14 1986.

Amount outstanding: UA18,578,000

May 23 1986

The Fiscal Agent

KREDIETBANK S.A. LUXEMBOURGEOISE

Legal Notices

IN THE MATTER OF HYDOR SERVICES LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 25th day of June, 1986, to send in their full Christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned Christopher John Hughes, FCA, of Shelley House, 3 Noble Street, London EC2V 7DQ, the Joint Liquidator of the said Company, and, if so required by notice in writing from the Joint Liquidators, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 14th day of May, 1986.

K. D. GOODMAN, C. J. HUGHES, Liquidators.

A. R. INVESTMENTS LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 588 of the Companies Act, 1985, that a Meeting of the creditors of the above-named Company will be held at the offices of Leonard Curtis & Co., 30 Eastbourne Terrace, London W2 6LF, on Friday the 30th day of May 1986, at 10.30 o'clock in the forenoon, for the purposes provided for in Sections 589 and 590.

Dated the 15th day of May, 1986.

A. ROSEN, Director.

ADVERTISEMENT OF FIRST MEETING OF CREDITORS THE COMPANIES ACT 1985 KNIGHT & HUMPHREYS LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 588 of the Companies Act 1985 that a Meeting of the Creditors of the above-named Company will be held at 1 Warwick Place, Carter Lane, London EC4V 5AJ on Thursday, the twelfth day of June 1986 at twelve o'clock noon, for the purposes mentioned in sections 589 and 590 of the said Act.

DATED this 16th day of May 1986

By Order of the Board

G. A. KNIGHT, Secretary

OTTERLYIN LIMITED

T/A Fantasia Luxury Bathrooms

NOTICE IS HEREBY GIVEN, pursuant to section 588 of the Companies Act, 1985, that a Meeting of the Creditors of the above-named Company will be held at Knowle House, 4 Norfolk Park Road, Sheffield S2 3QE, on Friday, the 23rd day of May 1986, at 11.30 o'clock in the forenoon, for the purposes mentioned in sections 589 and 590 of the said Act.

Dated this 9th day of May 1986.

By Order of the Board,

P. J. DELANEY, Director.

International Property

Personal

Personal

Company Notices

AEGON

Insurance Group

AEGON nv established at The Hague, The Netherlands

At the Annual General Meeting of Shareholders held on 21st May 1986, the dividend for the 1985 financial year was fixed at Dfl. 3.20 in cash per Ordinary Share of Dfl. 5.00 nominal value. In September 1985 an interim dividend of Dfl. 1.30 was paid. The final dividend therefore would amount to Dfl. 1.90 in cash. The final dividend can be paid entirely in shares from the share premium reserve, free of tax, or from the other reserves. The final dividend for 1985 in shares is fixed at Dfl. 0.11 shares nominal value (2.2%).

Dividend coupon nos. 9 and 10 attached to the shares will be convertible from 3rd June 1986 at the head offices of: Amsterdam-Rotterdam Bank N.V., Algemene Bank Nederland N.V., Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Nederlandse Middenstandsbank N.V., Pierson, Heldring & Pierson N.V., Bank Mees & Hope N.V., Kredietbank N.V., Brussels, Kredietbank S.A. Luxembourgeoise, Luxemburg, Schweizerischer Bankverein, Zürich and Geneva, Deutsche Bank Aktiengesellschaft, Düsseldorf, Morgan Guaranty Trust Company of New York Ltd., London, J. Henry Schroder Wagg & Co. Ltd., London and AMRO-International Limited, London.

Dividend coupon no. 11 is not being used and has been declared void. Holders of Ordinary Shares can, until 29th August 1986, obtain on dividend coupon No. 9, attached to 50 Ordinary Shares, one new share of Dfl. 5.00 nominal value; and on dividend coupon No. 10, attached to 500 Ordinary Shares, one new share, of Dfl. 5.00 nominal value, fully participating in the profit from 1986 and subsequent years.

The coupons must be deposited at N.V. Nederlandsch Administratie- en Trustkantoor, N.Z. Voorburgwal 326-328, 1012 RW Amsterdam, The Netherlands.

The usual commission will be paid to members of the Vereniging voor de Effectenhandel (Netherlands Stock Exchange Association), thus enabling them to exchange dividend coupons nos. 9 and 10 without charging commission to Shareholders.

The cash dividend/entitlement to payment in Ordinary Shares will be made available to holders of CF Certificates through the institutions with which the dividend coupon sheets relating to the shares were lodged at the close of business on 21st May 1986. Those requesting their banks, in connection with the exchange of coupons, to accept the deposit of and/or to issue securities will be charged the applicable commission of Dfl. 50.00 plus BTW (value added tax) for each transaction, in accordance with the scale of charges laid down by the Nederlandse Bankiersvereniging (Netherlands Association of Bankers).

The Hague, 21st May 1986 Mariahoeveplein 50

AEGON nv Executive Board

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Contracts and Tenders

ALGERIE - الجزائر

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)

MINISTRY FOR ENERGY & CHEMICAL & PETROCHEMICAL INDUSTRIES

NATIONAL OIL EXPLOITATION COMPANY

NOTICE OF INVITATION TO TENDER

NUMBER 9230.AY/MEC

The National Oil Exploitation Company is launching a national and international open invitation to tender for the supply of:

DIESEL MOTOR PUMPS ON SKID

Companies interested in bidding may obtain the Specifications on payment of 400.00 Algerian dinars from the following address:

ENTREPRISE NATIONALE DES TRAVAUX AUX PUITS
16 ROUTE DE MEFTAH, OUED SMAR
EL HARRACH, ALGIERS, ALGERIA
DIRECTION DES APPROVISIONNEMENTS

with effect from the date on which this notice is published. Offers, of which five (05) copies should be prepared, must be sent in a double-sealed envelope by registered mail, to the Secrétariat de la Direction Approvisionnements at the above address.

The outer envelope should not bear any mark that might identify the tenderer, and should read: "APPEL A LA CONCURRENCE INTERNATIONAL NUMERO 9230.AY/MEC." (CONFIDENTIAL — A NE PAS OUVRIR). The final date for receipt of tenders is fixed at 45 days from the first publication of this notice.

Selection will be made within 180 days of the closing date of this invitation to Tender.

anep/alger

ALGERIE - الجزائر

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)

MINISTRY FOR ENERGY & CHEMICAL & PETROCHEMICAL INDUSTRIES

NATIONAL OIL EXPLOITATION COMPANY

NOTICE OF INVITATION TO TENDER

NUMBER 1185/6I/MEC

The National Oil Exploitation Company is launching a national and international open invitation to tender for the supply of the following equipment:

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DIRECTION APPROVISIONNEMENTS

with effect from the date on which this notice is published. Offers, of which five (05) copies should be prepared, must be sent in a double-sealed envelope by registered mail, to the Secrétariat de la Direction Approvisionnements at the above address.

The outer envelope should not bear any mark that might identify the tendarer, and should read: "APPEL A LA CONCURRENCE NATIONAL ET INTERNATIONAL NUMBER 1185/6I/MEC." (CONFIDENTIAL — A NE PAS OUVRIR). The final date for receipt of tenders is fixed at 45 days from the first publication of this notice.

Selection will be made within 180 days of the closing date of this invitation to Tender.

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Arts Week

F	S	Su	M	Tu	W	Th
23	24	25	26	27	28	29

Music

PARIS

Leo Nucci recital (Mon). Théâtre de l'Athenee (47426727).

Ensemble Intercontemporain conducted by Pierre Boulez, Phyllis Bryn-Julson, soprano, Pierre-Laureat Aimard), piano: Dufourt, Boulez, Messiaen (Mon). Théâtre de la Ville (42742277).

Ensemble Orchestral de Paris with Henryk Szeryng as conductor and soloist: Mozart (Tue). Salle Pleyel (45610630).

Paul Kuentz Paris and Brest choirs and Brest Conservatory Orchestra: Verdi Requiem (Tue). Saint-Severin Church (46338761).

Trio a Cordes de Paris Vachon, Krommer, Haydn (Tue). Radio France, Grand Auditorium (4524 1516).

Claudio Arrau, piano: Schumann, Liszt (Wed). TMP-Chatelet (42334444).

Nouvel Orchestre Philharmonique conducted by Emmanuel Krivine: Mozart, Haydn (Thur). Salle Pleyel (45638873).

LONDON

Gidon Kremer, violin and Andras Schiff, piano. Schubert, Schumann and Bartok. Queen Elizabeth Hall (Tue). (9283191).

Academy of Ancient Music Orchestra and Chorus conducted by Christopher Hogwood with Antony Pay, basset clarinet. Mozart. Royal Festival Hall (Tue). (9283191).

Royal Philharmonic Orchestra conducted by Yuri Temirkanov with Sir Yehudi Menuhin, violin. Weber, Beethoven, Chausson and Berlioz. Royal Festival Hall (Wed).

London Sinfonietta conducted by David Atherton with Felicity Lott, soprano. Ravel, Villa-Lobos, Richard Rodney Bennett and Falla. Queen Elizabeth Hall (Wed).

Academy of St. Martin-in-the-Fields directed by Iona Brown with Barry Tuckwell, horn, and John Aler, tenor. Mozart, Britten and Haydn. Queen Elizabeth Hall (Thur).

Bach Choir, St. Paul's Cathedral choristers and London Symphony Orchestra conducted by Sir David Willcocks with Patrizia Kwella, soprano, Penelope Walker, contralto, Ian Bartridge, tenor and Rafael Orozco, piano. Kodaly, Mozart and Britten. Royal Festival Hall (Thur).

WEST GERMANY

Frankfurt, Alte Oper: The Philharmonia Orchestra London, conducted by Giuseppe Sinopoli, Haydn and Mahler (Mon).

Berlin, Philharmonie: The Berlin Philharmonic Orchestra and mezzosoprano Brigitte Fassbaender, conducted by Erich Leinsdorf. Mahler (Tue, Wed)

München, Philharmonie im Gasteig Kulturzentrum: The Philharmonia Orchestra London under Giuseppe Sinopoli. Schubert. (Tue)

BRUSSELS

Palais des Beaux Arts (512 40 45) Gidon Kremer, with Andras Schiff, piano Schubert, Schumann, Bartok (Wed); Belgian National Orchestra conducted by Georges Octors with Antonio Meneses, cello – Webern, Dvorak, Debussy (Thur).

ITALY

Milan: Teatro alla Scala: Juilliard Quartet. Schubert. (Mon). (809126)

Florence: Teatro Della Pergola: (Maggio Musicale Fiorentino): Israel piano trio. Schubert, Henze and Brahms (Tue); English Chamber Orchestra conducted by Vladimir Ashkenazy. Wagner, Mozart, Richard Strauss (Wed); Mozart (Thur). (262381).

Rome: Auditorium via della Conciliazione: Rafael Fruhbeck de Burgos conducting Beethoven with Alicia delarrocha, piano. (6541044).

Rome: Basilica di S. Giovanni Dei Fiorentini: Gonfalone Chamber Orchestra conducted by Massimo Paris. Mozart. (Thur). (655.952)

NETHERLANDS

Amsterdam, Concertgebouw. Piano recital by Murray Perahia. Beethoven, Berg, Schumann, Chopin (Mon). Amnesty International jubilee concert by the Concertgebouw Chamber Orchestra under Jaap van Zweden, violin, with Duncan McTier, double bass (Tue). The Netherlands Philharmonic conducted by Hubert Soudant, with Jean-Bernard Pommier, piano. Beethoven (Wed). Gidon Kremer, violin, and Andras Schiff, piano. Schubert, Schumann, Bartok (Thur). (18343).

Utrecht, Vredenburg. Bach's Hohe Messe from the Amsterdam Baroque Orchestra, the Netherlands Chamber Choir and soloists, conducted by Ton Koopman (Wed). The Netherlands Philharmonic conducted by Hubert Soudant, with Jean-Bernard Pommier, piano. Beethoven (Thur). (314544).

NEW YORK

Bargemusic (Fulton Ferry Landing): Chamber music recital with William Doppman piano and Julie Rosenfield, cello. Brooklyn (624 4061).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting, Milton Stevens trombone, Loren Kitt clarinet, Dotian Carter harp, John Martin, cello. Lumbye, Parris, Weber, Debussy, Boccherini, Ravel (Tue); Mstislav Rostropovich conducting, William Steck violin. J. C. Bach, Brahms, Copland (Thur). Kennedy Center (254 3776)

CHICAGO

Chicago symphony (Orchestral Hall): Henry Mazer conducting. Marta Aznovorian piano. Brahms, Mozart, Dvorak, Grainger, Khachaturian, Shostakovich, Hayman (Wed); Jesus Lopez-Cobos conducting, Horacio Gutierrez piano. Hindemith, Chopin, Sibelius (Thur). (235 8111)

TOKYO

The Tokyo String Quartet: Mozart, Bartok, Beethoven. Shin-uku Bunka Centre. (Mon). (235 1861; 237 9990)

Tokyo City Philharmonic Orchestra: conducted by Shunsaku Tsutsumi. Mozart Tokyo Bunka Kaikan. (Tue) (3540101; 2379990).

Raymond Gallois, violin, accompanied by Akiko Ebi, Faure, Ravel, Franck. Tokio Bunka Recital Hall. (Tue). (4405541)

Traditional Japanese: Tsugaru Shamisen (banjo-like instrument native to Aomori, northern Japan) by Chikuzan Takahashi. Jean-Jean (intimate theatre) Shibuya. (Mon, Tue) (4620641).

Nagauta by Sachiko Kondo. Ginza Gas Hall. (Thur) (5731671; 6073341).

Koto (horizontal wooden harp) and Sbamisen (banjo) recital by renowned Tomiyama family. National Theatre small hall. In aid of research into transposition of traditional Japanese music into Braille. (Thur) (2657411)

Theatre

NETHERLANDS

Eindhoven, Schouwburg. Chengdu Puppet Theatre from China (Wed, Thur). (11 11 22).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Brighton Beach Memoirs (46th St): The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldsters retains its stars, Judd Hirsch and Cleavon Little, who almost conquer the world when they think they are just bickering with each other. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

Philadelphia Story (Arena): Elinor Renfield, who last directed Peter Nichols's Passion Play here, takes on the Philip Barry American classic about a headstrong debutante whose society wedding draws the press to gawk. (488 3300).

Loot (Music Box): John Tillinger directs this high-spirited revival of Joe Orton's 1966 macabre farce featuring Zoe Wanamaker as the homicidal nurse who romances a widower while burying his wife and conniving with their thieving son to hide the body. (239 6200)

LONDON

Lend Me A Tenor (Globe): Fresh and inventive operatic farce by new American author Ken Ludwig set in Cleveland, Ohio in 1934. Dennis Lawson and Jan Francis lead an energetic company in mistaken identity romp, while Verdi's Otello carries on regardless. (437 1592)

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Torch Song Trilogy (Albery): Antony Sher plays Harvey Fierstein's four-hour triptych of the life and loves of a drag queen fighting for emotional and domestic stability. Truthful playing has the effect of cruelly exposing Fierstein's tackily uneven writing. (836 3878).

Interpreters (Queen's): Love among the diplomats, according to Ronald Harwood has a superb role for the matchless Maggie Smith renewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1166).

Lennon (Astoria): A not too critical celebration of the life and music of John Lennon that is enjoyable especially for the music resourcefulness of the cast and Mark McGann's Lennon look-and-sound-alike. (734 4287).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

Opera and Ballet

WEST GERMANY

Berlin, Deutsche Oper: Don Giovanni brings Ashley Putnam, Pilar Lorengar, Lenus Carlson and Rüdiger Wohlers together. La Gioconda is a Filippo Sanjust production. Maria Slatinaru makes her debut in the title role. Zar und Zimmermann is a well done repertoire performance. (34 381).

Hamburg, Staatsoper: Don Carlos with Eva Randova, Jewgenij Nesterenko, Giacomo Aragall and Leo Nucci is an event of more than passing interest. Turandot features Galina Savova, Peter Haage and Harald Stamm. La Clemenza di Tito has fine interpretations by Judith Beckmann, Gabriele Fontana, Tatiana Troyanos and Harald Stamm. Der fliegende Holländer stars Gwyneth Jones, Theo Adam and Kurt Moll. Also offered Boris Bodunov in a concert version, and Belsazar. The latter stars Helen Donath and Walter Raffeiner (35 11 51).

Frankfurt, Opera: Die Walküre produced by Ruth Berghaus includes Catarina Ligendza, Helena Doese, Gail Gilmore, Walter Raffeiner and Manfred Schenk. Louis Quilico is repeating his much praised performance in the title role in Falstaff. Die verkaufte Braut rounds off the week. (2 56 21).

Munich, Bayerische Staatsoper: Die Zauberflöte has Silvia Greenberg, Pamela Coburn and Christian Boesch in the main parts. Rigoletto, a Polanski production, conducted by Giuseppe Patane has Patricia Wise, Helena Jungwirth, Juan Pons and Karl Christian Kohn. Also offered is Ariadne auf Naxos. (2 16 51).

ITALY

Milan: Teatro Alla Scala: Pelleas et Melisande by Debussy conducted by Claudio Abbado and directed by Antoine Vitez. Includes Frederica von Stade, John Broecheler, Nicolai Ghiaurov and Alfredo Giacomotti. (Wed). (80 91 26).

Rome: Teatro dell'Opera: La Bohème conducted by Daniel Oren and directed, and with scenery and costumes by Pierluigi Samaritani. In the cast are Nelly Miricioiu, Francisco Araiza and Alessandro Corbelli (46 17 55).

Naples: Teatro San Carlo: Barber of Seville conducted by Bruno Bartoletti and directed by Roberto de Simone with Margarita Zimmermann, Mikael Melbye, Frank Lopardo and Enzo Dara. A co-production with the Aix-en-Provence festival (41 82 66).

Venice: Teatro la Fenice: Verdi's Attila conducted by Gabriele Ferro with Samuel Ramey and Maria Chiara. (71 91 61).

Venice: Teatro Goldoni Futurist theatre: Le Boeuf sur le Toit – a one-act by Jean Cocteau with scenery and costumes by Raoul Dufy and music by Darius Milhaud (first performed in 1919). Also Mercure – choreography by Massine and scenery and costumes by Picasso, music by Erik Satie (1924), and La Creation du Monde by Blaise Cendrars with scenery and costumes by Fernand Leger and music by Milhaud (1923). (70 75 83).

LONDON

Royal Opera, Covent Garden: Thin pickings indeed. Even the prospect of a starry line-up for Carmen including Agnes Baltsa and Jose Carreras, hardly compensates for the lack of any other opera throughout the week. (240 1066).

English National Opera, Coliseum: Splendid variety – Fledermaus, Doctor Faust and Birtwistle's The Mask of Orpheus provide something for most tastes, as well as two operas that go well beyond the usual limits of the medium. (836 3161).

PARIS

Cinderella, in a contemporary version by Peter Maxwell Davies, conducted by John Burdekin and interpreted by young performers for a young audience at the Opera Comique (4296 0611).

Trisha Brown Company dances Lateral Pass, Group Primary Accumulation and Set and Reset in Robert Rauschenberg's decor. 52 Bobigny, Town Centre, Bd Lenine, Metro Pablo Picasso (4274 2277).

NETHERLANDS

Amsterdam, Stadsschouwburg. Fidelio performed by the Netherlands Opera and directed by Harry Kupfer, with the Netherlands Philharmonic under Edo de Waart. Luana DeVol as Leonore, and Günter Neumann as Florestan (Tue). (24 23 11).

Eindhoven, Schouwburg. Opera Forum with Tchaikovsky's Eugen Onegin directed by Jan Rouws and conducted by Alun Francis, with soloists Thea van der Putten; Hein Meens and Henk Kreukniet (Tue). (11 11 22).

Scheveningen, Circus Theatre. Nederlands Dans Theater with the premieres of ballets by Jiri Kylian and Glen Tetley, and Kylian's Overgrown path (Thur). (55 68 00).

Krisztina de Chatel's dance group with Typhoon, Wed in Arnhem, Schouwburg (42 47 41), Thur in Eindhoven, Schouwburg (11 11 22).

VIENNA

Staatsoper: La Gioconda conducted by Fischer with Marton, Sentschuk, Lilov, Domingo, Tannhauser conducted by Klobucar with Secunde, Martin, Sima; The Barber of Seville conducted by Zedda; Cavalleria Rusticana and I Pagliacci (53 24/26 55). Volksoper: Der Opernball conducted by Bibl; Polenblut; Die Fledermaus; Der Zarewitsch (53 24/26 57).

NEW YORK

New York City Ballet (New York State), Lincoln Center (870 5570).

American Ballet Theatre (Opera House): Mikhail Baryshnikov brings his company to its two-month spring season with four new works choreographed by Kenneth MacMillan, John Taras, David Gordon and Karole Armitage, which join the repertory that includes The Nutcracker, Don Quixote, Giselle and La Bayadere. Ends July 5. (362 6000).

WASHINGTON

Stuttgart Ballet (Opera House): The two-week visit will include the full-length Eugene Onegin choreographed to Tchaikovsky by John Cranko, Béjart's Gaité Parisienne and the local premiere of John Neumeier's A Street Car Named Desire. Ends June 8. Kennedy Center (254 3770).

TOKYO

Japanese Folklore Art Dance Troupe: Colourful and dramatic dances include: Deer Dance, The Great Serpent of Yamata, Demon's Sword Dance, Rice Planting Festival, etc. Good English explanations. Worth seeing for its exuberance and energy, and reminder of Japan's rural culture gradually submerged in urbanization. Xubin Chokin Hall, Shiba Koen (Tue, Wed). (582 9171).

Antonio Gades: The renowned Gades company from Madrid in their flamenco version of Carmen in month's tour of Japan. Shinjuku Bunka Centre (Thur). (235 1861).

National Opera of Paris Ballet (including: Florence Clerc, Sylvie Guillem, Françoise Legree, Patrice Bart, Laurent Hilaire, Patrick Dupond). Salome, Bolero (Wed); Pas de Deux, Bolero (Thur). N.H.K. Hall. (723 2356).

Exhibitions

LONDON

The Hayward Gallery: Falls The Shadow – this year's Hayward Annual for the first time extends its view of contemporary art from Britain into Europe. The Arts Council's guest selectors, Barry Barker and Jon Thompson, taking a hint from T.S. Eliot's ambiguous poem of the mid 1920s, The Hollow Men, abandon the principles of avant-gardism in favour of a more open and catholic modernism. The result is an elegant, difficult and fascinating anthology. Ends June 15.

WEST GERMANY

Berlin, Natinoalgalerie, Potsdamer Straße 50: Gerhar Richter. A retrospective of 100 oil paintings by this East German who has lived in Cologne since 1983. The works cover 1962-85. Ends June 1.

Berlin, Akademie der Künste, Hanseatenweg 10: Life Or Theatre? This exhibitioa displays 250 gouaches by Charlotte Salomon. She died, aged 26, in Auschwitz. Ends June 15.

Bayreuth, Iwalewa-Haus, Münzgasse 9: Art and Culture from the Congo and Zaire. About 300 paintings, cult and practical objects from the Colonial period to today. Ends June 29.

Hamburg, Kunsthalle, Glockengießerwall 1: Renaissance of the North. 110 German and Dutch paintings on loan from the Paris Ecole des Beaux-Arts. Among the artists are von Bouts, Dürer and Goltzius. Ends June 29.

PARIS

From Rembrandt to Vermeer: 60 chefs d'oeuvres on loan from the Mauritsbuis trace a panorama of 17th-century Dutch painting with Vermeer's View of Delft with genre paintings, still lives and landscapes. Grand Palais. Ends June 30. (4261 5410).

Rasa – The Nine Foces of Indinn Art. A hundred sculptures in stone, bronze and terracotta and some 200 miniatures are divided into nine groups according to the sentiment they express: the erotic, comic, pathetic, heroic, terrible, furious, hateful, marvellous and finally the serene, thus making Indian art intelligible to Europeans. Many of the sculptures have been only recently discovered, while most of the miniatures are seen for the first time. Grand Palais (4261 5410). Closed Tue, Wed late opening. Ends June 16.

At the Court Of The Great Moghul: A parallel exhibition of Indian miniatures from Bibliotheque Notionale's collections, which have never been exhibited before. Bibliotheque Nationale, 58 Rue de Richelieu from 12am to 6pm all days. Ends June 18.

19th century pastels: A renewed, revigorated use of the pastel crayon technique, in complete break with its genteel 16th-century tradition, gives a sense of immediacy to Delacroix studies, to country scenes by Millet and portraits by Manet. It catches the movement of Degas dancers and women at their toilet and lights up Redon's inner visions. The Louvre, Pavillon Flore (4261 5410). Ends June 9.

Marie Laurencin: After a short flirtation with Cubism, Marie Laurencia, Apollinaire's love and Cocteau's friend, create an enchanted world of adolescent girls. The unchanging pale, oval shaped faces with expressionless eyes, the ethereal bodies amid flowers and flotating pink and blue gauzes could easily become too sugary but for the aura of Sopphic mystery. Gallery Malingue, 26 Ave Matignon (4266 6033). Ends June 21.

French Masters of the 19th and 20th century: The catalogue of the yearly Robert Schmit exhibition reads like a Who's Who in painting. There are five Boudins, the gallery's speciality. Caillebotte, Cézanne, Van Dongen, Fantin-Latour, Odilon Redon and even Soutine grace the walls with bouquets of flowers while Chagall has a flowering tree in his red-toned sunset; Degas has a study of two dancers and a fiery coloured oil of a nude combing her hair. There is a large composition by Derain from the late 1930s, the Painter And His Family grouping in a surprisingly realistic rendering – his wife with a book, his niece, his sister-in-law, family cat and himsel in the centre before an easel with a brush in his hand.

The strong point of the exhibition is a Picasso painted in 1900, a scene of typical Spanish figures in expressive attitudes and striking colours in front of a wine shop. As a counterpoint there is a stylised Woman in a Rocking Chair dated 1956 with the same strong orange, black and blue summing up Picasso's artistic development. Galerie Schmit, 396 rue Saint Honoré (4260 3636), closed. Sun and lunchtime. Ends July 19.

BRUSSELS

Musée Royale d'Art et Histoire: Taiwan-based painter Wong Liu-Sang. 40 paintings, of which 10 are by his pupil Chen Sian-Nan form this painter's first European exhibition. The artist will demonstrate traditional Chinese painting on June 18. Ends June 29.

ITALY

Florence: Museo Nazionale del Bargello: Homage to Donatello: to celebrate the 6th centenary of his birth the 19 Donatellos the museum owns, of which only six are of absolutely certain attribution, have been grouped, with much documentation, to give a new view of the artist. The exhibition includes his extraordinary, languid bronze David. Ends May 30.

Rome: Palazzo Braschi: (Piazza San Pantaleo): Edvard Munch (1863-1944): More than 250 works by the Norwegian painter from the Munch museum in Oslo and private collections. Death and illness became a dominant theme in Munch's works: Subjects such as Death In The Sickroom are reworked in oil, charcoal and pastel – each seeming more compelling than the last. Also on show is his extraordinary work The Scream painted in 1893, in which the scenery becomes o vortex for the central, anguished figure. During the 1890s, Munch moved nway from realism and impressionism (there are three delightful paintings on show of Nice and St. Cloud) towards expressionism, a style which be used to express not only desolation, but also lyricism and passion. Ends June 1.

Venice: Palazzo Grassi: Futurism and Futurisms: Fiat opens its art centre on the Grand Canal with the largest exhibition to be devoted to the Futurist Movement, a movement born in Italy, and the first to exalt technology, and to try to convey speed on canvas. More than 300 works have been lent. The paintings are mainly from 1909-18, but there are also sections devoted to literature, theatre, music, architecture, fashion and furniture, showing futurism's influence up to 1930. Ends Oct 12.

Rome, Castel Sant'angelo: Photographs and documentary material relating to the excavation of a house near the Roman forum, which has led not only to the discovery of part of the perimeter walls of the Foro Della Pace, but models of works by Bernini by an artist, known as Il Cavalier Fantana, who occupied the house during the 17th century. Ends June 10.

Rome, Galleria Carlo Virgilio, (Via della Lupa 10): Scipione Vannutelli (1834–94): Vannutelli's account of his travels in Rome, London, Paris ond Venice, through small and exquisite oils and watercolours. Scenes vary from the lush greens of the London parks to St Mark's Square in Venice, seen through the wind-blown curtains of the Caffe Florian. Ends June 10.

Florence, Palazzo Medici-Riccardi: Picasso Engravings (1904-71). Examples of the techniques with which Picasso experimented – etching, aqustint, linocut and engravings and often mixtures of several. One oil is included – the infinitely sad and gentle Harlequin, painted in 1917. The year in which Picasso started designing sets for Diaghilev's Russian Ballet company, and the year of his first visit to Florence. The model is the dancer, Leonide Massine. The first etching is the chilling Frugal Meal done the year that Picasso settled in Paris (1904). The Dove lithograph (1949), adopted as the symbol of the world peace congress, several irreverent reinterpretations of Cranach and Rembrandt, portraits of Jaqueline, Françoise and Paloma and various mythological subjects are included. Ends June 22.

Milan, Pinacoteca di Brera. Photographs from Life Magazine: 1946-55: A fascinating and nostalgic exhibition of over 200 photographs chosea by Doris McNeil from the Life picture collection. An extraordinary mixture of styles and subjects, from harrowing documentary photographs of the Korean war, or Cornelius Ryan's terrified Jewish war-orphans awaiting expulsioa from Palestine as illegal immigrants in 1946, to brilliantly constructed studio-photography, such as Salvador Dali with cats and jets of water – all airborne.

There is Barbara Hutton being prevented from entering the Ritz in Paris because she was wearing (extremely ladylike) shorts, and Milton Greene's marvellous portrait of Marlene Dietrich, focusing on the legs. The exhibition is sponsored by United Technologies. Ends June 15.

NETHERLANDS

Amsterdam: Van Gogh Museum. 90 Whistler etchings from the Zelman collection follow the career of the brilliant eccentric from his Paris period, through the penetrating observation of London's dockland, the tranquility of the Venetian set, and closing with the late, dreamlike impressions of Amsterdam. Ends June 8.

Dordrecht Museum. A choice selection of 60 Piranesi etchings from the imposing Vedute di Roma and the oppressive visions of the Carceri. Ends June 8.

Amsterdam Historical Museum. Cor Jaring's photographs of Amsterdam in the restless 1960s, from Provos to dockworkers, happenings to street markets, and an eventful royal wedding. Ends June 22.

17th-century drawings in Teylers Museum, Haarlem. Little-known sheets by the leading masters. Ends June 14.

SPAIN

Madrid: Contrasts of Forms. Abstract and geometrical art sponsored and recently exhibited at Moma, New York. 150 works by 20th century artists set out chronologically, offers a coherent display to 1980 with Braque, Leger, Picasso, Mondrian. Biblioteca Nacional, Paseo de Recoletos 22. (435 40 03). Ends June 30.

Madrid, Claude Monet (1840-1926): The greatest living French artist, as he was called, was an innovator who revolutionised the course of modern painting by playing a leading part in the creation of a new artistic movement: impressionism. 125 paintings on loan from private collectors and museums from all over the world will offer a good overview of his different artistic periods with a prominent representation of his most famous period at his home at Giverny. Meac – Museo Espanol de Arte Contemporaneo, Avenida Juan de Herrero 2. (449 71 50). April 29 – and June.

Barcelona. Max Ernst retrospective includes 125 works of the dadaist and surrealist painter. Fundacion Joan Miro, Parc Montjuic. Ends June 29.

Madrid Ancient Mexico. Objects nhowing the sophisticated taste and the rich culture of the Mayas, the Aztecs, the Olmecas and the Teotihuacanos. Good presentation offers a

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THE ARTS

Cinema/Nigel Andrews

The Go-Glo boys come to Cannes

Cannes Film Festival
Down and out in Beverly Hills, directed by Paul Mazursky
Biggles, directed by John Hough
The Mystery of Alexina, directed by Rene Feret

Widely tipped to become the summer season's first festival of terrorism, Cannes 1986 passed off without any bullets, blood-baths or *bombes surprises*. It was the same non-violent madhouse as ever. Out on the beaches and seafront terraces, ladies with topless bikinis vied with producers with bottomless cheque books. Inside the cinemas, movies that stirred the heart and stimulated the brain vied with movies that numbed a lower part of the anatomy. And there were the Press conferences, parties and previews of coming attractions. Quotation of the festival came from Cannon Films chief Menahem Golan. Justifying to the Press his casting of Norman Mailer in the title of Jean-Luc Godard's forthcoming *King Lear*, Menahem exclaimed: "He's perfect for the part. He has five daughters and he leads a crazy life."

Sam Goldwyn, you should be living at this hour. And then there were the prizes, which for once at Cannes seemed surprisingly sane if alarmingly prolix. *The Mission* warmed the cockles of Goldcrest's heart by winning the Palme d'Or. There is a masterpiece tucked away inside this "work in progress," which was brought to Cannes in a confessedly non-final state as a kind of glorified sneak preview. (Coppola did the same with *Apocalypse Now* eight years ago—and also took the Golden Palm.)

By contrast, Andrei Tarkovsky's *The Sacrifice* came to Cannes as a fully achieved masterpiece. It copped the Grand Prix Special du Jury (runner-up prize), the International Critics prize, the Ecumenical Jury prize and a prize for Best Artistic Contribution (for Sven Nykvist's photography).

The acting awards came out in a rash of *ex aequo's*. In the male category, Bob Hoskins, lovestruck ex-con in Britain's *Mona Lisa*, shared the flush of triumph with Michel Blanc gay housebreaker in France's *Tenue De Soirée*; while actresses Barbara Sukowa and Fernanda Torres were honoured for providing the only moving parts in two catatonic films, Margarethe Von Trotta's *Rosa Luxembourg* and Arnoldo Jabor's *Tell Me About Love*.

In addition there was a stream of also-ran prizes, honouring so many different films for so many vague and

Jeremy Irons in The Mission, winner of the Palme d'Or at the Cannes Film Festival

interchangeable virtues that it is becoming as great a distinction not to win a prize at Cannes as to win one. Among the clean-sheet no-winners were Jim Jarmusch's *Down By Law*, Bruce Beresford's *The Fringe Dwellers* and Sergei Bondarchuk's *Boris Godunov*. The last unquestionably deserved nothing: Pushkin's tale of czar wars made into one of those monumental Soviet films at once opulently dressed and dramatically and emotionally bankrupt. And Beresford's account of shanty life among the Aborigines is affectionate but a trifle soapy.

But a best comedy prize should surely have been manufactured for *Down By Law*. Jarmusch, the low-budget wizard of *Stranger Than Paradise*, here spirits forth a black-and-white impromptu about three ill-assorted escaping convicts. They are Tom Waits, John Lurie and the incomparable Roberto Benigni, who drives his companions mad with his Italianate pidgin English and his devotion to the poems of Robert Frost (in Italian). There are jail cells barred with *film noir* shadows; there are sinister alleys, sinister alligators and Louisiana swamps. The film is parodic, laconic, oneiric and irresistible.

Outside the competition, a warm welcome to Eugene Corr's *Desert Bloom*. This whisks us back to 1950s Las Vegas for a tale of family life on the innocent rim of the Nevada A-Bomb tests. Dad Jon Voight, Mum Jobeth Williams and their teenage children keep having rows and near split-ups, but they are re-nucleated by the excitement of going out to watch the mushroom cloud. Ah, those were the days! Down with the picnic hamper, out with the dark glasses and on with the show. The movie has a warm heart and a chilling irony.

On the festival's last day, a grand old man was honoured. The late Orson Welles's uncompleted *Don Quixote*—a film he worked on over several years, whenever a few more dollars or pesetas came his way—was presented to us in the 40-odd minutes that survive. Across a black-and-white Spain combining the modern (car dumps, shopping streets) with the historical (castles, windmills medieval hilltop towns), Quixote and Sancha trek and tilt and chatter and grandiloquise, enchantingly incarnated by Francisco Rigueira and Akim Tamiroff and dubbed, in both cases, by Welles himself (!) Impossible to judge from these fragments whether a masterpiece or a mess was in the offing. But even with erratic sound and visuals (taken from the working print) and the occasional sense of home movies in La Mancha, there is more joy, spectacle and humanity here than in all of that dire recent screen attempt to render *Cervantes for us today* (via Graham Greene), *Monsignor Quixote*.

The audience emptied happily out of the film into more sunshine and more movies as the Cannes countdown continued.

The last days of a film festival always resemble the last days of Pompeii. Everyone either runs around being madly hedonistic—seize the moment, there are so few left—or they come over all soothsaying and prophetic about the future. The two chief questions to test the Cannes prophets this year were, first: Might the big American stay-away be a prelude to declining Hollywood interest in Cannes? (that is, if the US can do without Cannes this year, they might find they can do without it in future years); and secondly, Does it matter anyway since Cannon Films seem to be taking over the film world?

Messrs Golan and Globus had three films in competition, a mini-festival of their own in a downtown cinema and posters for forthcoming projects exploding all over the Croisette. They were also front page news almost every day in almost every trade magazine.

Mark Twain, touring Italy and exasperated by the ubiquity of Michelangelo's work and influence, once said. "Lump the whole thing! Say that the Creator made Italy from designs by Michelangelo." 1986 is the year in which God is creating cinema according to designs by Golan-Globus.

*

The Go-Glo boys, as they are nicknamed, had no hand in Paul Mazursky's *Down And Out In Beverly Hills*. Perhaps the film might have been improved if they had. This Americanisation of Jean Renoir's great comedy *Boudu Sauvé Des Eaux*—or rather of the play on which it was based—is dismayingly clumsy and scattershot. Mazursky fires everything at us from funny dogs to knockabout swamis to Bette Midler shaking all movable parts at the L.A. socialite whose husband Richard Dreyfuss adopts tramp Nick Nolte. The film is oafish, over-anxious stuff from the director who once lensed such superfine human comedies as *Blume In Love* and *An Unmarried Woman*.

Biggles invites you on a barnstorming fantasy trip into the fourth dimension to meet Captain W. E. Johns's goggled World War I flying ace. But given the script (win some) and John Hough's frantic direction (lose some), it might be better to plead a prior engagement.

Or to see *The Mystery of Alexina*. A girls' school in 1850s provincial France, a teasing lesbian *amour* (or is it?) and the film's titillating imprimatur of being based on a true story. Rene Feret directs with sombre delicacy and Philippe Vuillermin plays the "heroine."

The Mask of Orpheus/Coliseum

Dominic Gill

No genre embraces Harrison Birtwistle's new "opera" comfortably — links with 16th-century masque are implied by his librettist Peter Zinovieff, and *indeed* to relate it to those Elizabethan sequences of music, dance, poetry, scenic decoration and pageantry comes far nearer the mark than the rather dry subtitle of "lyric tragedy in three acts."

But masque is not quite right either: *The Mask of Orpheus* is too grave, too dark, too full of sombre resonance to suggest that kind of spectacle. Nor is the sense of it wholly and unequivocally theatrical: it does not feel as if it were conceived, with a born dramatist's instinct, for the stage; yet it could never work in the concert hall. If we must pin it down, perhaps we shall have to be content with the new genre, a fascinating hybrid, which Birtwistle's *Mask* now defines: a gigantic symphony for wind instruments, percussion and electronics, with vocal obbligato, mime, and scenic accompaniments.

Andrew Clements warned us of the formidable complexities of the work in his preview on this page last Saturday; and they are not to be underestimated. It is exhilarating to see and to hear, and should definitely not be missed: but let audiences be warned—careful study of the text beforehand, or at least of the synopsis and accompanying articles in the programme, is obligatory if any sense is to be made of the scheme at all at first hearing.

The words of Zinovieff's archly self-conscious libretto are almost entirely inaudible, except where they are spoken. This matters very little, since they do not directly tell the legend of Orpheus and Euridice (the opera's ostensible "subject") but spin a web about it in quasi-musical fashion, piling verbal counterpoint upon verbal counterpoint. Birtwistle does not mirror the words closely, but uses them as the springboard for his own, often quite independent musical inspiration. That very independence sometimes makes for a particularly magical effect: in one or two of the mime interludes which regularly interleave the progress of the Orpheus story, accompanied only by computer-synthesised music on tape, I was reminded vividly of certain Merce Cunningham dances, which unfold on stage wholly independent of their sound-scores—but which seem to achieve nonetheless, by the very accident of their juxtaposition, an almost perfect synthesis.

All the forces, instrumental and vocal, are amplified. The music is powerful, insistent, unyielding—more than two-thirds of it was composed during the early 1970s, and the instrumentation of wind and percussion (no strings) reflects the austere preoccupations of that time (throughout the first two acts in particular the sound-world of *Verses for Ensembles* is repeatedly conjured). But the style, whatever period it recalls, is familiar: that sense of ever more finely focused circling *around an idea* ("I don't create linear music, I move in circles—more precisely I move in concentric circles"); the razor-sharp stripping away of material as the circle grows smaller, and the focus more intense.

The opening sequence, a slow swell of white noise, gently modulated, and joined almost imperceptibly by offstage amplified voices, is a masterstroke. There are many others: the dense wind chords, a distant wind chorale, which accompany the spoken melodrama at the first act's close; the brilliant Birtwistle jam-session which ends the second; the sudden lyrical writing (composed a decade later) which emerges in the last—if the first act shows the birth of language and music, the third act is the birth of lyricism, a new-found expansiveness of gesture which ties, more securely than any of the action on the stage, a satisfying dramatic knot.

The *Mask* is not a "singer's opera": much of the vocal music is sung, amplified offstage; as often as not, because of the masks which every singer and dancer wears, and because each of the three main characters, Orpheus, Euridice and Aristaeus, has at least two doubles, it is not even clear which character is singing. This again is of little consequence: at such moments it is the symphony which matters, not the story. Philip Langridge's assumption of the chief Orpheus role (two others are taken by Graham Walters and Nigel Robson) is an impressive tour de force—as is Jean Rigby's of The Woman Euridice (praise must go to Zeoa Dilke and Ethna Robinson too, even if one was never quite sure which was which).

David Freeman's production is by and large uncommonly sympathetic—in a way that his production of Birtwistle's *Punch and Judy* never was—to the austere, enigmatic, static quality of the music. He allows himself freest rein in the mime interludes to which I referred earlier, and that seems exactly right; I don't know how anyone could satisfactorily stage the second act in the Underworld without (as Freeman himself wryly remarked) using up the budget of a Steven Spielberg film—but he does it neatly and cogently enough with rope-ladders, and puppets out of some infernal Maurice Sendak tale. Jocelyn Herbert's designs and costumes are sumptuous, black and grey and pastel colours—the masks are weirder and nastier than the strikingly beautiful ones made for the NT's *Oresteia*, but no doubt the grotesquerie is apt. Elgar Howarth's conducting is exceptionally clear, and his energy unflagging.

Alastair Muir

Tom McDonnell and Jean Rigby in The Mask of Orpheus

Every Man in His Humour/The Swan, Stratford

Michael Coveney

Since T. S. Eliot's 1919 essay, Ben Jonson has not lacked for enthusiastic academic apologists who regularly wail at the lack of interest the theatre profession itself takes in our second dramatist. John Caird's absorbing, affectionate and marvellously enjoyable revival of *Every Man in His Humour* in the Swan at Stratford-upon-Avon should keep everyone, including myself, happy for a while.

I recall studying this play at school and producing essays on "The Humours" littered with quotations from the dustier speeches in the play. But, as Hazlitt surmised, the piece "acts better than it reads." It depends heavily on the relish in disguises evinced by the servant brainworm, as he leaps between a father and a son, the former chasing the latter, supposedly ruined, across London through Moorfields and into the Windmill Tavern in Coleman Street. David Haig's wonderful appropriation of this role brings the play straight from the study into the theatre.

Above all, as Anne Barton remarked in her recent magisterial study of Jonson, the City of London is the true centre of the comedy. Mr Caird thus approaches the text as a haven for real people going about their business and bathes it in a realistic glow similar to that covering *Nicholas Nickleby* which he directed with Trevor Nunn. Young Knowell is in fact a decent lad biding his time for a suitable bride. She, Bridget, is the sister of the hypochondriac Kitely, riven with jealousy and convinced that his wife is whoring at Cob, the water-bearer's lodging, at which humble abode is resident the military buffoon Captain Bobadill.

Jonson's aim was to offer an antidote to the popular historical plays of the day and what he did — at least in the folio version, mostly followed, here and a vast improvement on the Florentine 1598 quarto text in which Shakespeare appeared — was to provide an example of themeless playwriting from dawn to dusk, time charted with conspicuous exactitude and ending in a wedding ceremony, a renewal of the marriages of Kitely and Cob, the reconciliation of father and son, the delighted apotheosis of the role-changing brainworm.

The Royal Shakespeare Company feed the play through the Swan in marked contrast to the slapped-down, sealed-up manner of *The Two Noble Kinsmen* which opened this splendid venue. With actors in period costume and the new wood sometimes kidding you into believing you have entered an Elizabethan wine bar, there is a remote danger of the place becoming everything Sam Wanamaker desires. Sue Blane's design offers a floating townscape of furniture, barrels, beams and pulleys.

Hazlitt also thought Jonson's characters merely mechanical. On the page, Kitely and Bobadill for instance are unmistakably "types." But these types are transformed in the acting of Henry Goodman and Pete Postlethwaite. Mr Goodman moves Kitely towards Shakespeare's Ford, creating a man whose jealousy grows and proliferates rather than stands still as a stagnant symptom of his humour. His imagination runs riot, envisaging a home turned into a tavern or a theatre, his wife sleeping with everyone who looks her way, his serving boy a deceitful traitor. This was one of Kean's great roles, and Mr Goodman builds a fantastical portrait of a man who ends up suspecting even members of the audience in a conspiracy against him.

Pete Postlethwaite's Bobadill is similarly conceived to coincide with the play's real time duration. He is discovered with a most appalling hangover, trembling and slobbering his platitudes while trying to stick a monocle in his eye and his feet in his boots. He twitches and bumbles in yet another daily and desperate attempt to pull himself together, say something sensible, propagate his image.

The cast is strong all the way down. Tony Church doing his affable best to enliven Knowell and rewarded with accusations of "goat," "letcher" and "old incontinent"; Philip Franks giving a very sharp and elegant edge to the poetaster Matthew; Joely Richardson and Jane Galloway forbearing as Kitely's sister and wife; and Simon Russell Beale, who made such an impact in the Royal Court's *Women Beware Women* discharging young Knowell with a sly variation on unalloyed virtue.

La Pietra del Paragone/Grand Théâtre, Bordeaux

Ronald Crichton

The Bordeaux Festival opened this month with rare Rossini as the main operatic event on the programme. *La Pietra del Paragone*, a youthful comic opera, was given at La Scala in 1812, shortly before *Tancredi* and *L'italiana*. The principal roles were written for the mezzo Marietta Marcolini and the bass Filippo Galli, who sang for Rossini again in *L'italiana*. In our own time *La Pietra* was more hindered than helped by a German version of Rennert and Paul Friedrich that turned up at Glyndebourne in the '60s. Quite recently the Piccola Scala brought the real thing to Edinburgh.

La Pietra shows Rossini at 20 already a composer of experience, his ideas tumbling over one another with unexpected twists and turns. The Marchesa Clarissa is wooed, not unwillingly by Count Asdrubale. This gentleman is pursued by two avid young ladies, Fulvia and Ortensia, who have a painter, Pacuvio, and a journalist, Macrobio, after them. On the edge of the busy knot is Giocondo, sighing for Clarissa but ready to give her up for the sake of his friend Asdrubale.

As a touchstone (the meaning of the opera's title) to discover which of the ladies really loves him, Asdrubale makes a pretence of being ruined and disguises himself as one of his supposed creditors, an African chieftain come to claim a debt. In the second act Clarissa, well aware of what is going on, disguises herself in turn, donning uniform and false moustaches as her own brother, who may or may not lend the money. True love triumphs, except for the self-sacrificing Giocondo.

An uncertain evening, with the Bordeaux-Aquitaine orchestra, not fully at home with Rossini's idiom, under a young German conductor, Klaus Weise, conveying the music's vitality but still a little way from the blend of mellowness and watchfulness it deserves. Jean-Louis Thamin's production was nothing more than fun and games in 18th century wigs, illuminating neither character nor situation.

All the more reason to be grateful for some good singing. Raquel Pierotti, a young mezzo from Barcelona, sailed through Clarissa's music. The voice is dark, firm and supple, hard at the top (she should listen to herself more carefully) but full of exciting promise. Asdrubale was the inextinguishable Sesto Bruscantini, as usual a model of style, inflection and gesture from whom some of his colleagues had not learned all they might. A talented buffo bass new to me, Enrico Fissore, sang the journalist Macrobio. The tenor role of Giocondo is secondary but not, as Raul Gimenez showed, unworthy. The second act solo, one of those magical points to repose with which Rossini refutes any idea that he was merely a musical buffoon, was the high spot of the performance.

Among the first week's attractions was Honegger's *King David*, heard in the fine Gothic church of Saint-Seurin, whose low roof plays less than the usual havoc with instrumental sound. *King David* was conceived for and first given in an open-air theatre in Switzerland with a popular audience. This explains the determined use of primary colours, rough-hewn scoring (mainly wind and brass) and a general air of rustic simplicity saved from affectation by one or two cunningly built-up ensembles.

Jacques Pernoo was the reliable conductor. More brilliance could easily be imagined. Whether the Swiss sobriety underlying the stampings and wailings would have benefited is another matter. The instrumentalists were drawn from conservatoires in the region. The soloists were Françoise Garner, Hanna Schaer and Andreas Jäggi. Georges Descrières spoke the narration. This was a rehabilitation of the kind a festival can most usefully do.

Continued from Page 22

comprehensive study of this country's magic and exotic charm. Museo de America, Avda Reyes Catolicos 6.

VIENNA

Jewellery from 1900-25: A selection from the Museum of Applied Arts' *extensive Art Nouveau jewellery* collection not usually on display. The museum began its collection in 1900. Ornamental combs by René Lalique, enamel and ivory pieces by Gaillard, and beautiful jewellery using glass and semi-precious stones by the Belgians Van de Velde and Philipp Wolfers. There are also pendants, lockets, brooches, necklaces, belt buckles and rings from the masters of the Wiener Werkstatte - Haffman, Moser and Czeschka - many on public view for the first time. Applied Arts Museum, ends June 8.

NEW YORK

Japan House: Burghley House, with its the earliest known record of Japanese porcelains in Europe, *provides a touring exhibit that will visit* the High Museum in Atlanta and then Japan through 1988 with 205 Japanese and Chinese objects dating from the 16th to the 18th centuries. Ends July 27.

Museum of the City of New York: Arbit Blatas's paintings, drawings and sculptures of Three Penny Opera covering 12 scenes and 1t characters, were inspired by the historic Theatre de Lys production in 1954 starring Lotte Lenya. Ends Oct 15.

Metropolitan Museum: Two centuries of Renaissance masterpieces from Nuremberg include 270 works in painting, sculpture, tapestries and illuminated manuscripts by Albrecht Dürer, Hans Baldung Grien, Veit Stoss and Adam Kraft. Ends June 22.

WASHINGTON

Hirshhorn Museum: 75 works of the California sculptor Robert Arneson presents the glazed ceramics he pioneered in what became the Funk movement in the 1960s with its irreverent view of other artists, contemporary artefacts and art itself. Ends July 6.

National Gallery: Paintings by Picasso, van Gogh, Gauguin, Matisse and Renoir are among 41 Impressionist, post-Impressionist and early modern paintings from the Hermitage and Pushkin Museums in Leningrad and Moscow making their first American trip. Ends June 15.

TOKYO

Antoni Cleve: 130 works by one of Spain's prominent modern artists. Tokyo Teien Museum, Meguro. This museum, with its art deco architecture and garden was once the home of a member of the Imperial family. Ends June 6.

Scenes of Spring: 10 works on hanging scrolls by Japanese artists Kano Tanyu, Shunso Hishida, Gyoshu Hayami and others. Okura Museum, at Okura Hotel. Ends June 15. Closed Mon.

Saleroom/Susan Moore

Bedevilled rarities

A young Persian prince sits ventriloquist style on the Czar's knee; the Sultan of *Turkey* is presented with a pair of pistols, canons blaze and a company of 26 sit down to a Russian feast *al-fresco*. All this and more takes place on a Persian mirror-case painted by the court painter Muhammad Isma'il in 1854.

At Sotheby's yesterday bidding stopped surprisingly at £30,000 on this fascinating and well documented museum piece, estimated at £40-50,000. Two stylised paintings from the emperor Akbar's copy of the *Homza-nama* of around 1570, the most important of the Akbar-period manuscripts, also failed to reach their reserve. The market for Oriental miniatures and manuscripts as ever proved variable.

Spink paid £19,800, well below the estimate, for a lively gouache illustration to the *Harivamsa*, also executed for the Mughal emperor Akbar. A rare oil painting, possibly a marriage portrait, of a richly attired young couple—only two other paintings survive from the period of Nadir Shah (1736-47)—went to a private collector for well above the top estimate, £28,600. A veiled prophet on horseback gallantly saving souls from a spotted pink devil was one of the 35 illustrations of Mughal omens, dating about 1580, which sold for £14,300. Some 41 per cent was unsold in the morning's sale, which totalled £128,964.

Lacquer work contemporary in date at least with the mirror-case dominated Christie's English furniture sale. A good collection of 59 lots of black gilt and mother-of-pearl japanned papier-maché ranged from Davenports to whatnots, with some of the finest work from the royal warrant-holders Jennens & Bettridge, the leading Birmingham japanners. One, a single but unusual spoon back chair pierced with palmettes, the split-cane seat supported on cabriole legs (made after T. H. Jennen's death in 1864) sold for £1,188. The more decorative and useful items went well, a tray centred by the *Queen's Favourites* after *Landseer* made £4,536, and a pair of polescreens, painted with stalking scenes also after the Queen's favourite painter, £2,376.

One of the most colourful lots of Sotheby's musical instrument sale was one of ten extant pre-1740 Irish harps. It came from Hollybrook, Co. Wicklow, the family seat of the "Sweet Robert Adair" immortalised in Scottish and Irish ballads, in whose possession the harp is believed to have been. Happily it went to the National Museum of Ireland in Dublin for £3,520. The museum also successfully bid £990 for an Irish viola of 1770 by Alexander McDonnell.

Another museum purchase was a set of modern Polish bagpipes, the bag comprising the entire skin of a skewbald goat. It went to the Horniman Museum for £880. The morning's sale totalled £631,637, with 8 per cent unsold.

FINANCIAL TIMES

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The limits of deregulation

DEREGULATION and liberalisation, other things being equal, are likely to improve the performance of market economies. It is thus encouraging that since Lord Young took over as Employment Secretary last year, a greater emphasis has been placed on the need to lift the regulatory burden on business. Any small businessman, at a moment's notice, can list dozens of seemingly unnecessary official rules and regulations that make his life harder and less rewarding. The good news, as broadcast in yesterday's white paper on deregulation, is that Lord Young is chipping away at these minor irritants with increasing vigour.

The paper's emphasis on the importance of measuring the compliance cost of regulations is particularly welcome. In the past it was too often assumed that if a regulation provided a benefit to somebody (usually employees or some arm of government) that was the end of the matter: the regulation was imposed. Such an approach ignores the fact that all regulations also impose costs — in time, money and effort — on those regulated. Lord Young's argument, which most economists would support at least in principle, is that a careful assessment of both costs and benefits is required. Regulations should be imposed only when there is a clear net benefit.

Broad thrust

This cost/benefit approach to regulation sounds straightforward but can in practice prove complex and controversial. The difficulty is that both costs and benefits are hard to measure and they are typically borne by different people: ultimately, the decision on whether to impose a regulation rests on a value-judgment. For example, the white paper advocates some relaxation of planning controls. This may be good for businesses but bad for local residents who care about the quality of their environment: there is no scientific way of deciding which group's interests matter more. The implicit judgment made throughout the paper is that the overriding need to boost the productive power of the economy justifies the reduction of burdens on business even if this makes life less pleasant for other groups in society.

The broad thrust of policy on deregulation is right but there is room for concern on at least three fronts. The first is whether Lord Young's re-definition of the Employment Department's role is entirely desirable. Should its prime purpose be to stimulate enterprise? This might be a more appropriate motto for the Trade and Industry Department. Given the scale of the problem of unemployment, it would not be surprising if the Employment Department were wholly absorbed with the task of improving the efficiency of the labour market and securing jobs for the long-term unemployed, only one-in-six of whom are reached by government schemes. It is surprising that so few of Lord Young's recommendations have anything to do with the labour market.

Significant effect

The second worry is that many of the deregulation proposals are frankly footling: is the replacement of 50p by £1 bands in national insurance contribution tables really worth citing as an achievement in a white paper? It is hard to avoid concluding that the Government is making the most of these marginal liberalisations because it has backed away from more important reforms. Lord Young's bundle of minor changes is no substitute for the failure to liberalise the housing market, the failure to reform radically the tax base or the failure (so far) to rationalise competition policy. Nor does it compensate for the failure to combine privatisation with robust measures to stimulate competition: the sale of British Gas as an integrated monopoly will probably more than offset the liberalising measures in this document.

The third worry is that the Government may be lulled into complacency by its own rhetoric about enterprise and deregulation. Liberalisation is important, even if the benefits tend to show only in the long-term; but it does not guarantee strong economic performance: it is slightly unfortunate that Lord Young stresses the virtues of America's enterprise culture just as doubts are gathering about the health of US manufacturing industry.

Micro-economic reforms are necessary but they need to go together with macro-economic policies and to be directed towards those areas of the economy on which they will have a significant effect.

Dutch reject the soft option

THE OUTCOME of the Dutch election is a useful reminder that voters in a democracy can and often do reject the lure of the soft option and the emotional response. It is a lesson politicians elsewhere would do well to heed.

What happened? Mr Ruud Lubbers's centre-right coalition was expected to be beaten because it had followed an austerity policy since 1982, and because the Chernobyl disaster was expected to drive voters into the arms of the firmly anti-nuclear Labour Party. Instead the coalition won, and Labour lost seats.

Shorn of the nuclear aspect, the result echoes what happened—before Chernobyl—in Belgium last year. There a similar coalition under Mr Wilfried Martens also surprised the pollsters by retaining power after four years of austerity.

From the point of view of the western alliance, the result in the Netherlands is welcome. The socialist Labour Party had undertaken to change the agreement with Nato under which cruise weapons are to be installed in the Netherlands by the end of 1988 (provided there is no disarmament agreement by then between Moscow and Washington). Nato needs no re-opening of the internal debate about cruise in a number of European countries.

Wider pattern

Dutch Labour had also undertaken to close the existing three nuclear power stations in the Netherlands — a promise that was expected to attract a great deal of support in the wake of Chernobyl. The fact that it did not speaks for the maturity of the Dutch electorate. It preferred Mr Lubbers's more cautious intention to suspend construction of two additional nuclear plants until more is known about the implications of Chernobyl.

Dutch level-headedness in this matter should be food for thought in some other countries, for instance West Germany where the Social Democratic opposition appears to be moving towards calling for a phasing out of nuclear power. In Vienna, too, the Socialist-led government has decided to pull down the completed but never commissioned nuclear power station in the hope of swinging the anti-nuclear vote behind the Socialist presidential candidate.

Nuclear politics apart, the Dutch and Belgian elections fit into a wider pattern established in Europe, but also elsewhere, since the oil shocks of the 1970s. The recessions and budgetary stringencies provoked by these events arrested the widespread drift towards extending the scope of the welfare state and encouraged conservatism in its widest sense.

The rise of Mrs Thatcher in Britain and the fall of Mr Helmut Schmidt in Germany were landmarks. But it was not merely a matter of right-wing parties ousting parties of the left. In many countries the left-wing parties themselves broke with their extremists and sought to regain the middle ground of politics that had been lost to the right.

Economic climate

In Britain the rise of Mr Neil Kinnock is a case in point. In Sweden the Socialist Party followed up a pre-emptive devaluation with supporting measures of austerity. In Norway, this month, the Socialist Party, brought to power not by an election but by a shift of parliamentary alignments, intends to do the same.

The West German Social Democrats appear to be in two minds. By choosing Mr Hermann Rau to lead them into the next general election they made their bid for the support of the centre; but recently there have been indications that strong forces want to shift the party on to an anti-nuclear and anti-Nato course. What happened in Holland might make them think again.

France and Spain are the exceptions that neatly prove the rule. Both countries turned out conservative governments during the 1980s, but the socialist successors soon watered down their socialism.

The narrowness by which the French conservatives regained power this year suggests that, in spite of high unemployment, moderation is once again in demand, perhaps as a result of the improved international economic climate. The Dutch and the Belgian experiences bear out such a reading. The austerity of Mr Lubbers and Mr Martens did hurt, but it was far from being extreme.

THE departure of Sir Keith Joseph from Mrs Thatcher's Cabinet deserves more than a premature obituary. In a sense he made the Prime Minister.

He was the man who encouraged her to run for the Tory leadership against Mr Edward Heath in 1975 and who co-operated with her in setting up the Centre for Policy Studies, which went a long way to challenging traditional Tory thinking and helped bring the concept of market economics to the forefront of British politics.

He used to say that he did not need to talk to Mrs Thatcher very much because he always knew what she would be thinking. She came to power in 1979 wanting, in her own words, "to stir things up." Sir Keith did that all right. The trouble was that he was rather less good at getting them to settle down again, and took — in political terms — an unconscionably long time about it.

At the Department of Industry, which he thought should ideally wither away, he was slow at making the cuts in the nationalised industries, some of which have only been announced in the last few weeks.

It is a bit much for a government to have to report a new wave of redundancies at British Shipbuilders and British Rail Engineering after seven years in office, and the plans to sell off British Leyland to the private sector have gone awry.

At the Department of Education, he took practically everything to pieces, continually asking the questions: what is this or that committee for, how can we get value for money and, above all, how can we raise standards? He had some radical ideas, like the replacement of student grants by student loans or the introduction of educational vouchers to provide greater parental choice in sending children to schools.

None of them got very far, and that bothered him, though the notion of student loans is probably gaining ground. He was more interested in ideas and the theory of the pursuit of excellence than the practicalities designed to bring about some modest improvements.

The result is that he can be said to have left behind him a considerable mess. There was plenty of evidence of that this week as the universities were up in arms about the possibility of further cuts, perhaps including the closure of departments and even entire institutions.

Politics Today

Putting education together again . . .

By Malcolm Rutherford

More interested in ideas than practicalities

At the same time, Her Majesty's Inspectors in their annual report were lamenting the state of the schools, their disrepair, lack of equipment and the poor quality of some of the teaching and management.

At a press conference Mr Maurice Shock, the chairman of the Committee of Vice-Chancellors and Principals, complained that the Government was in sight of running down the university system to the point where it might demolish one of the country's major assets. "The universities," he wrote in a letter to the University Grants Committee, the body which allocates government funds, "will soon be going past the last red light on a track that has been littered with warnings . . . No university, not even the most favoured, is going to be better off next year than it has been in this."

Mr Shock added that there is another problem that will only come to the fore in the next few months: the level of academic salaries. Academic disaster beckons, he claimed, because "salary levels and career prospects are not good enough in a great many subjects to recruit and retain talent of the standard that we must have."

The Department of Education seems to agree with the latter point: academic salaries will become a great issue later this year. The problem lies not in recruiting academics, but in keeping them in their mid-80s when other countries and other careers offer more attractive rewards.

A conversation with an official responsible for higher education at the Department was a singularly gloomy occasion. It had taken 13 drafts, he said, to produce the Government's green paper on the development of higher education into the 1990s last year, and even then it had reached no firm conclusions.

The trouble was, he elaborated, that the Department of Education and Science does not particularly run anything. It can work by the power of persuasion and the power of the purse. Sir Keith had not used the power of the purse very much. Besides, until Sir Keith came along, there had been a sort of abdication at the Department for a good 20 years.

It was thought that after the Robbins report on university expansion in 1963 everything was in place and that the expansionist idea had its own momentum. Sir Keith was the first Secretary of State to have examined the whole spectrum of education since the late Anthony Crosland in the mid-1960s.

Asked if he normally sounded so depressed, the official perked up a bit. There were, he agreed, other ways of looking at it all. And indeed there are. The situation that Mr Kenneth Baker, the new Secretary of State, has inherited is not quite as bad as it looks. What is needed is a sense of direction.

Take, for instance, the report of the Inspectorate on the schools. It would be very easy to present it as a blanket condemnation. Some of the language suggests just that.

Paragraph 14 reads in part: "The condition of much of the accommodation used by pupils, students, teachers and lecturers continues to deteriorate. Last year's report warned that without urgent attention the cost of putting things right would become prohibitive. There has been no such improvement. In fact there has been no improvement overall in the state of school buildings since 1981, and the current programmes of maintenance in many local education authorities suggest that the situation is likely to continue to worsen."

Yet that is not quite the whole of the report; nor is it really the essence of it. Paragraph 8 begins: "Throughout the system the large majority of the work seen was judged satisfactory or better."

The pattern that emerges is one of great unevenness. It is as if the inspectors are not certain whether to complain that the theatre is half empty or to rejoice it is at least half full. The message that has come across is the system is not working. It would be as easy to deduce from the report that the defects are capable of being remedied. Defeatism seems to have set in. The emphasis is on the bad rather than the good. Mr Baker will need his skills of presentation should he be able to do something about that.

It is much the same with the universities. Contrary to widespread belief, the Robbins principle that courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so, has never been formally abandoned. Indeed it would be hard to imagine any British government going back on such an idea.

One of the problems is that there is a great deal of mythology about Robbins, as an excellent recent book by John Carswell has pointed out. The period of university expansion began before Robbins. The Robbins report became important because the Conservative government of the day had woken up to the thought that Britain was falling economically behind other countries and more higher education was a remedy.*

In that respect, Harold Macmillan's administration over 20 years ago was not much different from the present government, which has discovered the importance of managing such large institutions with thousands of employees and tens of thousands of students. It was left to the University Grants Committee, which secures funds from the Government and then allocates them to the universities, to try and sort it out.

Where Robbins erred was in not taking full account of developments that were already taking place. Between August 1957 and January 1960, for instance, the salaries of university staffs had been increased by a total of 28½ per cent. In the same period seven new universities were approved and almost everyone was in favour of a continuing rise in the number of students.

Robbins failed to notice an earlier report by the Anderson Committee which said that everyone who could get into full-time higher education should have a grant. Mr Carswell comments that "the Robbins Report completed the edifice by saying that everyone who wanted higher education and reached the required standard should have a place to go to."

At some stage there were bound to be problems about funding, unless it could be assumed that the country would have a continuing high rate of economic growth. Perhaps it was, but the assumption was false.

There were also bound to be problems about managing such large institutions with thousands of employees and tens of thousands of students.

It is not surprising either that Mr Maurice Shock who, one is told, is a reasonable man in private should behave like a militant trade union leader at a press conference. After all, that in a way is what he is.

Least of all, is it surprising that the Government should try to claw back some say in what is going on. One of Sir Keith's initiatives, yet to come to fruition, was to institute an inquiry into the workings of the University Grants Committee. Under the chairmanship of Lord Croham, who as Sir Douglas Allen used to be head of the civil service, it is due to report in the autumn and will perhaps lead to a whole lot more recrimination about the erosion of university autonomy and an arch-interventionist, over-centralising government.

Yet one should try to stand back a little. It is not all bad and the Government's statement in the Green Paper last year that it is not improbable that some institutions of higher education will need to be closed or merged at some point during the next decade, though perhaps tactlessly put, should not really be anathema. No private institution would expect to go on year after year without closing some departments, merging others and opening some new ones. Much of the problem is about finding a mechanism to allow this to happen in the universities.

Where Sir Keith may have failed was to try to reform the whole educational system at once. He trod on too many toes and challenged too many sacred cows. The cuts in university spending of 1981 amounted to a policy of cutting first and developing a strategy later.

Even when more money might have been forthcoming in the last year or so, Sir Keith tended to withhold it because he wanted to ensure improvements in quality first. His policy to the schools was very similar.

The Committee of Vice-Chancellors has exacerbated the situation by commissioning opinion polls which show that 85 per cent of those interviewed said that more should be spent on universities and another 85 per cent said that existing spending should be maintained.

But the findings are not really surprising. It would have been amazing if they had been much different. And at the end of the day, with Mr Baker installed, it is likely that more money will be found.

That is really Mr Baker's strength. Sir Keith has stirred things up. A new man, with money behind him, can perhaps restore calm. What he will have to do is to gear up hundreds of thousands of people in the Department, in the schools and in the local authorities that education is again being given a push forward.

There will always be some tension between the Department, which has little power, and the periphery on which the bulk of education depends. But it may be there is room for a new partnership. If there is not, the Government—any government—will have to think seriously about imposing more centralisation.

Sir Keith Joseph has stirred things up

From time to time the system has broken down. Disruption is not a new phenomenon. The practice of allocations on a five-year basis was abandoned in the 1970s and if higher education is so much a part of public expenditure it is not surprising that it, too, should be affected when the axe falls.

*Government and the Universities in Britain, Cambridge University Press. £19.50.

Men and Matters

Bonds of happiness

Rock and Roll was king as the world's bond dealers celebrated a bumper year in Singapore this week, where they are resting from their labours and attending the association of international bond dealers annual meeting.

Before the serious business got under way yesterday there was plenty of entertainment, my bonds expert reports, as delegates relaxed from the toils of the monster bull market which falling interest rates have brought.

My intrepid reporter braved the string quartets at the national museum, taken over for the evening by Goldman Sachs. Guests received gold-plated walnuts which, when rolled in the palm, will doubtless soothe many a stressed bond manager.

The Swiss club was the unlikely venue for a jungle safari night hosted by Credit Suisse First Boston. Surrounded by fronds, bamboo, and flaming torches, the Eurobond community was treated to Maori dancing—well, Singapore is on the way to New Zealand.

At the Kasbah Nitecub (yes, my man was getting into his stride) Morgan Stanley was host and hair was being let down. The pace was even faster at the Atlantis Club where Euroclear and DBS Bank were offering a nightcap.

If a few dealers' beads were ecung yesterday morning they didn't show it. Global traders are not supposed to suffer from hangovers or jet lag.

"London? We're offering a Special Expulsion day return"

Warwick's first

Lord (Jack) Butterworth was suitably modest yesterday about the top ranking given to Warwick in an assessment by the University Grants Committee of the performance of British universities.

Warwick, known as "the house that Jack built," was a greenfield site when Butterworth arrived as the first vice-chancellor back in 1964 from Oxford (ranked 31st by the UGC).

A colourful figure with a ribald sense of humour, Butterworth came under fire from students and academics in the 1960s and 1970s for establishing close links with industry. But his pioneering approach had become respectable by the time he retired last October, and made way for American engineer, Clark Brundin.

Warwick had succeeded by breaking down the barriers between academics and industry. Prof. Kumar Bhattacharya, in the engineering faculty, currently claims £15m private sector backing for research graduate training and problem solving with companies such as Austin Rover, Lucas and GKN.

Similarly, John Egan, chairman of Jaguar, has backed the fast-growing business school's initiative in launching a part-time MBA.

Butterworth stressed yesterday that the service given to industry was reflected throughout the university. "In whatever subject, we have gone for first class people able to do quality research."

The UGC, which has made a radical break with tradition by this year's university rankings is itself under fundamental review by a Government appointed committee of which Butterworth is deputy chairman.

Title deeds

Today's riddle: which is the odd one out of ISRO, IBRO and IMRO? Answer, IBRO which is changing its name due to possible "confusion."

Finding names for the current plethora of new financial self-regulatory organisations is no joke, and when NASDIM—which I don't need to spell out as the National Association of Security Dealers and Investment Managers—decided a few weeks ago to merge with LUTIRO—the Life and Unit Trust Intermediaries Regulatory Organisation—the acronym IBRO seemed like a good idea.

It stood, at a guess, for something like the Investment Brokers Regulatory Organisation, and sat neatly alongside the International Securities Regulatory Organisation and the Investment Management Regulatory Organisation.

Alas, an angry response ensued from a well-established body called the Inter-Bank Research Organisation and the NASDIM and LUTIRO dignitaries had to go back to the drawing board.

So it is goodbye IBRO, and a big welcome to FIMBRA, the Financial Intermediaries, Managers and Brokers Regulatory Association.

Why Association rather than Organisation? It's a much better word for a voluntary grouping, argues Mark St Giles, chairman of NASDIM, and in line to become the first head of FIMBRA. At the same time, he confesses, there happens to be a registered company already called Fimbro. . . .

And he stresses that the new body has absolutely nothing to do with ladies' underwear.

Overtime

Time stood still for Britain's industrialists last night as the annual dinner of the Confederation of British Industry in London was addressed by the Prime Minister, Margaret Thatcher.

It was not simply the magic of her words, heroic though they were. The industrialists had decided that drastic action was needed to preserve the continuity of the office of CBI president.

In the past the CBI has allowed its outgoing president a final fling, addressing the dinner party and welcoming the great and good guests, before electing a new president the following day.

This year the prime minister's tight schedule, and the difficulties in booking a suitable banqueting room, forced the CBI to hold its dinner on the same day as the presidential election.

David Nickson, chairman of Scottish and Newcastle Breweries, was elected CBI president for a two-year term yesterday afternoon.

Members then agreed to adopt the EEC device of avoiding a knotty issue by stopping the clock. This they did so that Sir James Cleminson, chairman of Reckitt and Colman, could welcome Mrs Thatcher and remain president until midnight last night—when, it was being widely predicted, he would try on a glass slipper and quietly leave the Hilton Hotel, Park Lane.

Observer

In Japan

It's small beer

TOKYO has now become the most expensive city in the world, according to a fistful of recent surveys. Never cheap, its rising costs can be linked exclusively to the 40 per cent appreciation of the yen against the dollar over the last eight months. It matters little whether the indices are based on a bottle of beer (about $1.75 for just under two-thirds of a litre) or the price of a very modest 70 square metre three-bedroom flat in the capital's suburban wasteland ($150,000-$200,000): the conversion rates make awesome reading. They even imply, at least on paper, that Japan might be losing its legendary comparative cost advantage over other industrialised countries, especially the US.

As soon as the yen began moving up last September, wiser heads in Japan warned that the adverse consequences (principally a loss of exports) would be felt before the benefits (still lower inflation and better terms of trade). According to virtually all the politicians, most of the export-oriented businesses and some of the economic statistics, Japan is still in the suffering phase.

The problem is to separate the rhetoric from reality. Nowhere has the former been more prevalent than in the political arena. The Tokyo economic summit earlier this month created a watershed between the image-conscious political truce and the subsequent free-for-all in the battle to succeed Mr Yasuhiro Nakasone as Prime Minister. His perceived "failure" at the summit to put a lid on the yen's rise is now being used as a club against him, just as he is using the case for economic counter-measures as an equally transparent political ploy to force the summer general election that his rivals do not want.

The reality however, is probably that the value of the yen is no more than a tool in a game whose outcome will be determined for other, personal, non-policy reasons. Even if Mr Nakasone had forced the yen back down to Y260 to the dollar and then won a smashing election victory, his party, the ruling Liberal Democrats, would still have been perfectly capable of showing him the door in October, when it must decide on a new leader.

Again, all rhetoric, inside and outside Japan, accepts that domestic demand needs boosting and, inside the country, that affected industries should be *helped*. But none of the proposed or mooted solutions amount to the sort of cathartic stimulus that Western critics think are required, or even the structural reform that domestic bodies, such as the Maekawa commission, feel desirable. Even if Mr Nakasone is disposed of, *only* one alternative, Mr Kiichi Miyazawa, has promised a more radical approach.

The Government will come up with more aid to small businesses, probably another Y200bn worth, but will skate round the fact that the current Y300bn programme is being under-used. A further impetus to public works will be provided, just as it has, like clockwork, for the *last* five years; political considerations might dictate *a* tax cut before next year's promised overhaul, but neither will threaten the Government's religious commitment to fiscal austerity. In any case, there is much scepticism as to whether cutting taxes and/or ending the tax break on small savings will induce the Japanese to spend more.

Everyday Japan also fails to present much evidence of the impact of the *higher yen* on the Japanese. To be sure, the economic statistics do show that wholesale prices this spring were about 10 per cent below those of a year ago and that consumer price inflation, hitherto negligible, has all but disappeared, with the obvious and peculiar exception of real estate.

But the typical household has seen few price changes from the higher yen and cheaper oil, in marked contrast, for example, to the US experience. Gas and electricity prices for the individual (and industry) will finally come down this summer after protracted deliberation, but similar debate has done nothing much yet to the cost of other consumables, such as petrol at the pump, international phone charges and airline tickets, or imported foods. The recommended retail price of a bottle of Scotch marketed by official importers has been dropped from Y4,150 to Y4,000 (a nugatory fall given the yen's appreciation against sterling).

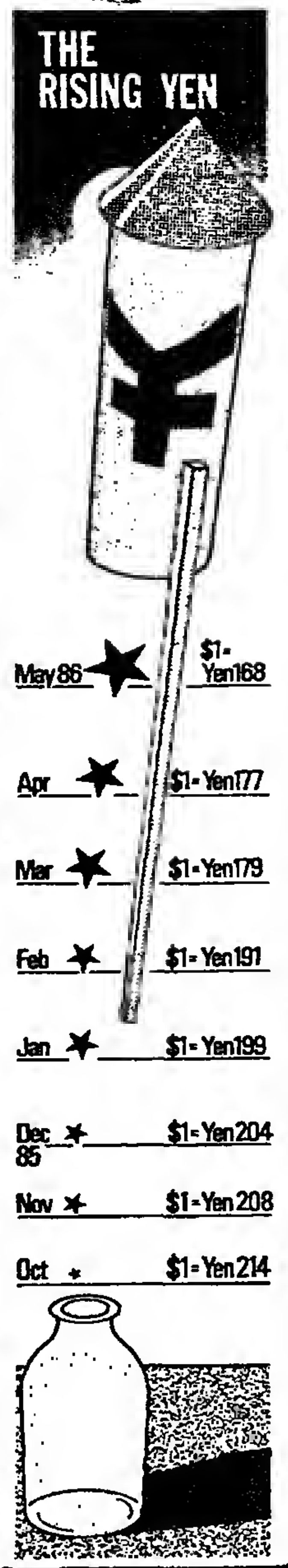
Many Western consumer products available in Japan are low volume prestige goods, not classically sensitive to price and imported by small specialist trading firms which find it hard to cut prices. The Japanese Government is putting pressure on importers to do so, but one informal diplomatic analysis here showed little change in the price of imported industrial goods and only spotty declines in consumer items. Yanase, a car importer, for example, reduced the prices on its VW and Audi models by between only one and two per cent in March (the yen's appreciation against the Deutsch Mark has admittedly been modest). It also lopped 7.5 per cent off its US models last November, but still found few additional buyers.

Japanese companies do not yet seem to have turned their energies homewards with aggressive sales campaigns, though there is plenty of talk about re-gearing for the domestic market, perhaps in time for the midsummer wages bonus period. But profit margins in an already saturated home market are low and the custom of orderly, albeit competitive, selling and retail price maintenance dies hard. Additionally, the complex Japanese distribution system, with its plethora of middlemen, tends to mean that the end *consumer can and will get only* a fraction of the manufacturer's or importer's savings.

Employment has yet to be visibly affected by the higher yen. If some people have been removed from the workforce then they were mostly not statistically recorded in the first place. In the big companies, this spring's wage round was marked by a deference on the part of organised labour exceptional even by Japanese standards. In some of the worst affected industries, like shipbuilding, wage increases were passed up to maintain jobs.

What is left is an economy which is certainly slowing down to between 1.5 and 3.5 per cent growth this year, but whose domestic segment, which, after all, accounts for over 80 per cent of nominal gross national product, has not been conspicuously under-performing by its admittedly sub-par recent standards. Construction and housing (albeit with government help) and department store sales have all been bearing up pretty well. And the reality is that the price of a bottle of beer, in yen, is still what it was two years ago.

Jurek Martin
in Tokyo



In export markets

No sign of retreat

THE WORLD trading arena has developed all the atmosphere of *a white-knuckle poker game* since the Japanese currency began its upward progress late last year.

For the first time in years, Japanese exporters find themselves at an apparent disadvantage. A newspaper survey of the country's 80 top exporters shows that they expect their pre-tax profits this year to fall 30 per cent as they absorb much of the yen's appreciation at the bottom line.

However, showing characteristic nimbleness, they have already figured the odds. Well aware that the game most often goes to the man with the best hand, they are preparing advanced strategies to ensure that, as far as possible, the cards drop in their favour.

Only in the depressed shipping and shipbuilding fields are the Japanese stuck for a *response. If* the dollar holds at about Y160 this year shipping will lose Y70bn and shipbuilding a further Y20bn. Earlier this week the national shipbuilders' association sought government aid for measures to cut capacity by 20 per cent.

Most manufacturers have already raised their export prices. Okuma Machinery Works, the country's leading machine tool maker, which exports 38 per cent of its output, has bumped up prices by more than 20 per cent.

Semi-conductor and computer manufacturers have imposed 20 per cent increases. But others have been more circumspect. Even though Japanese consumer goods makers dominate many world audio, video, microwave oven and camera markets, they are fiercely jealous of their market shares.

Consequently, increases have been selective. Matsushita, the world's biggest consumer electronics company, raised prices by between 5 and 10 per cent in January and by the same amount in April. There was a similar reaction from Toshiba and Hitachi.

Life is more difficult for Japan's motor car makers, which export more than half their annual output of 7.5m cars.

In the US, where Japanese car prices were increased by an average $1,000 at the start of the 1986 "model year" last September, indigenous makers are expecting more price rises. "The yen is already 30 per cent stronger but they've added only 10 per cent to the stickers (retail prices). So they owe us *about* another *10* per cent and another grand," says Mr Lee Iacocca, chairman of Chrysler.

In practice the Japanese are moving slowly. Changes this year have been limited to two staged rises of 3 and 4 per cent — well below the rate of the yen's appreciation. Toyota signalled a further increase for exports to the US on Wednesday, but this is expected to be smaller than the earlier ones and could be the last this year.

To make up some of the difference, Nissan, second largest *behind Toyota, and Mazda*, the No 4, have made strategic cuts of 10 and 15 per cent respectively in top executive's salaries

Nissan cut production 14.7 per cent in March "to reflect sluggish export prospects." The main makers have also asked suppliers to *share* the pain by cutting prices by 10 per cent.

Longer-term, Ms Maryann Keller an analyst with Vilas-Fischer Associates suggests the Japanese companies will accelerate investment spending outside Japan, source more parts locally for the factories they are to build in North America and push further into medium and full-sized car markets in the US where the domestic makers are still making respectable margins.

In theory, the appreciation of the yen should also add impetus to the Japanese move into assembling in Europe. However, some in the industry feel that the drop in profits from the US could make Japan more cautious about investing.

The currency realignment could hardly have come at a worse time for Nissan's subsidiary at Washington, near Sunderland, which is soon to start assembling 24,000 car kits a year.

"The currency changes are very unhelpful and will harm this company's trading position," says Mr Ian Gibson, purchasing director. The subsidiary buys most of its sheet metal and components from its parent in Japan. Nissan has yet to decide whether to spend a further £300m to increase capacity at Washington.

In other sectors, there is *already a clear trend towards* increasing imports of components from newly-industrialised countries (NICs).

Companies are also spreading their manufacturing base. Matsushita's intention to increase overseas production from 14 per cent at present to 25 per cent is echoed through all sectors. The company says it will increasingly make lower-value products in Singapore, Malaysia and elsewhere.

By contrast, some of Japan's competitors in Europe and North America seem sluggish. Admittedly, the effects of the yen's ascent on prices are still working their way through heavy inventories and currency hedging contracts. But there are few overt signs of manufacturers springing into action with the alacrity of the Japanese.

British distributors of Japanese machine tools, which have about a third of the UK market, have recently implemented price increases of 10-20 per cent even though they are known to carry heavy stocks.

Mr John *Shaw*, director and general manager of Yamizaki, which begins UK production in Worcester later this year, says British machine tool manufacturers are following Japanese trends and putting up their own prices in search of bigger short-term profits rather than enhanced market share.

Some European TV and audio makers are non-plussed. They have seen all the posted price increases, but are wondering when they will show in the shops. Mr Ray Harris, UK consumer electronics marketing manager for Philips, was surprised on his tour of this week's trade exhibitions in London to find Japanese makers actually reducing the prices of some products, notably their new flat-square TV sets.

Research by AGB, the market monitoring company, confirms *this* trend, *showing* that *most* UK consumer electronics prices have continued to fall this year. Video recorder and microwave ovens are 7 per cent cheaper than a year ago; small colour TVs are 6 per cent cheaper. Compact disc players, relatively new to the market, have been the subject of "*kamikaze* marketing," and prices are 15 per cent lower.

Mr Rob Hamersma, the Dutch group's general manager for corporate planning and marketing startegy, says he has yet to detect any impact on prices.

Rather than any let-up, Mr Hamersma expects even more aggression as production of mature products moves offshore and the Japanese concentrate at home on advancing their launch programmes for compact disc players and digital recording equipment. "For sure they will keep their market shares. If costs rise in the short term then they will accept it," he says.

The US picture is similar. The bald statistics are that prices of all Japanese goods have increased by 5 to 16 per cent. Yet despite the importers' announcements, the full impact is not reflected in shop prices. Again, long inventories and currency hedging have played a part, but perhaps the most important point is that, apart from the car market, Japanese manufacturers mainly compete with one another. They have held down retail prices in order to keep market share.

Overall, the most significant early impact of the stronger yen has been to put a floor under consumer goods prices, which have been falling steadily for several years. Though this is good news for some hard-pressed companies, it has come too late for many others, particularly in consumer electronics. Even though US brand names appear on some products, most are made in the Far East.

Whether these conditions will provide a foundation for Japan's competitors in Europe and the US to build on is doubtful. "With the higher yen it is a once-in-a-lifetime opportunity to beat the Japanese," says Mr Kenichi Ohmae, managing director of the McKinsey management consultancy in Tokyo. "But are Americans investing in new plant? No. They are fishing around in the newly industrialised countries . . . I don't think US companies are seriously interested in their home country.

"American companies are becoming empty. Where there is an easy way to increase profits they will rush to do so," he concludes. A harsh judgment, which on the evidence to hand might also include many Europeans. But it ignores the fact that, with a few exceptions, the competitive picture is yet to change significantly as a result of the yen's rise. It also takes no account of the enormous costs the Japanese are absorbing in the struggle to hold market share.

Contributions from: Carla Rapoport in Tokyo, Paul Taylor in New York and David Churchill, Jason Crisp, Nick Garnett, Kenneth Gooding and Christopher Parkes in London.

Letters to the Editor

A lot of sweet talking

From Mr K. Clark.

Sir, — The smooth talking young man from Conpro political party is in your sitting room explaining in a well rehearsed way his party's latest investment proposals, offering unique tax benefits and a secure future for your family. He is visiting you following an uninvited cold call in the middle of your favourite television programme.

As the polished patter continues, it begins to dawn upon you that you are being given very little information by way of hard facts other than that the tax benefits will be certain and that at some indeterminate time in the future your family will be worth a fortune. You will also be entitled to share in the prosperity of the company which is guaranteed under his party's rule.

It seems to you, however, that the following information is not being provided: any information on what portion of your tax would go towards central government expenditure; what proportion will be allocated to provide the splendid state benefits; and what effective rate of interest his party's actuary is assuming in his calculations.

At this point you begin to wish it was an insurance man sitting in your front room rather than a parliamentary candidate.

Critics of "salesman's sweet talk" like John Butterfield MP (May 17) must have had a very unfortunate experience in their early life at the hands of one of the very few unscrupulous life assurance salesmen to have become so cynical. While applauding the introduction of a licensing and registration system I am aware that only the minority need it.

The overwhelming majority of life assurance sales people in this country do a quite magnificent job and apart from providing very much needed financial protection to their clients, reduce the burden which would otherwise fall on the state.

At least when you buy a life assurance policy you get a cooling off notice and the option to change your mind. Perhaps the same opportunity should be given to electors.

Ken Clark,
Crown House,
Crown Street,
Ipswich, Suffolk.

Health service contractors

From the National Secretary, National Union of Public Employees

Sir,—I was sorry to read David Brindle's misleading article "Living with the NHS new broom" (May 14).

It is simply not true that the unions have accepted private contractors in the health service.

The reason why the private contractors can never be successfully accommodated within the NHS is quite straightforward. Competitive tendering is based on the principle of making savings out of the pockets of low paid workers. The private contractors are by now notorious for paying poverty wages and other exploitative practices. The price paid by the NHS, in terms of erratic and inferior services and a number of truly horrific contract failures is one we should never forget, especially when the Government trumpets the alleged "savings" from privatisation.

The lesson to be learnt from this whole sordid exercise is that the desperately needed funding for the health service cannot be created by running down and abusing parts of the existing health care team.

NUPE's fight against privatisation will never be abandoned until we have a Government with the political will to give proper funding to the NHS, and save vital public services from the corner cutting private contractors.

That's why we have warmly welcomed plans announced by the Labour Party for ending privatisation in the NHS.

Bob Jones,
20 Grand Depot Road, SE18.

Coverage of Chernobyl

From Miss A. Wells

Sir,—Ian Davidson's article "The choice that still faces Mr Gorbachev" (May 19) begins on voyeuristic note. He compares Gorbachev's broadcast on the Chernobyl tragedy with an operatic appearance that "must live up to the tension." He remarks that Gorbachev's appearance was hardly a "show-stopper" and "so long delayed that much of the tension had evaporated."

It is surely obvious that Gorbachev's Soviet audience, unlike certain sections of the western mass media, was not agog for entertainment. His delayed appearance may well have been due to Politburo resistance to an unprecedented broadcast which might have caused futile panic.

The fact that generally the western Press has failed to orchestrate a common sorrow for our erstwhile allies of the Second World War can hardly create an atmosphere in which disarmament talks can meaningfully take place. Well might Davidson quote Gorbachev, "we realise that it is another sound of the tocsin." We are all diminished both by the toll of human suffering yet to manifest itself from Chernobyl and by tasteless sensationalism of the western mass media which has thus lost an opportunity to kindle goodwill.

Davidson asks how Europe can defend itself against an "assumed Soviet threat." There is no evidence of a Soviet threat," only of a paranoic nation whose fears have hardly been allayed by insensitive news coverage in countries which, at times, are proud to call themselves "Christian."

(Miss) Andrey Wells,
London School of Economics,
Houghton St., WC2.

Leaping llama sales

From Mr D. Wardrop

Sir,—I refer to your item concerning llama exports (*May 19*). Current litigation between the British Llama Breeders Association and Anglo-Imperial Yaks precludes much comment on Fiona Thompson's report.

A recent report, however, funded by the World Bank, clearly suports the view that world demand for upland pack animals remains strong. The report also shows that in the key parameters of ton/mile speed, energy conversion efficiency (ECE/4) and G-force rejection (ability to carry extra-wide loads on class A tracks) the yak outscores the opposition comprising the mule, mountain dromedary, Finmark reindeer and the llama group.

Independent observers (including a professor at Patna University now recovering from a bad fall on the recent Citibank Trans-Bhutan pack-rally) argue that llama breeders, following the report's publication, prematurely reduced stocks in Britain and Spain in anticipation of falling demand. In some cases pack-accessories have been offered as customer incentives.

Their action is understandable but has probably lost to America world-leadership in llama breeding, now that the dollar remains so low.

Readers will be pleased to know that Britain remains the world-leader in yak breeding, and many will have noticed growing herds roaming wild on Exmoor, Dartmoor and Derbyshire. We welcome visitors to our stand at this year's Royal Show where new breeds will be shown, part funded by the European Common Agricultural Programme.

Yak-fleece clothes and rancid butter will again be on sale; and membership of the UKYAK Club is invited.

D. Wardrop
(Director, UKYAK Club),
Suite 6, Tech West Centre,
6 Warple Way, W3.

Protecting pensions

From Mr G. Crowley

Sir,—It is to be hoped that your leader of May 19 will stimulate legislative action. The potential for dishonest treatment (your adjective) of pensioners derives form the way the trust deed is drawn, and the trust fund is managed. The formal trustees have responsibilities to discharge which are only broadly defined in the trust deed, and it is the committee of management which creates the framework of detailed rules which really govern the conduct of the scheme.

Employee members of the committee have interests which in principle correspond to those of pensioners (for one day they will be pensioners) but they have no realistic chance of exercising critical authority against a management determined to minimise the level of pensions in payment.

To remedy this it is surely desirable for all trust deeds to carry a mandatory clause guaranteeing the increase in pensions in real terms against the cost of living index. To be just to an employer, such a clause should be supplemented by a formula enabling the payment of a reduced increase in pensions under defined circumstances, including the financial inability of the employer to support further the trust fund.

The report on the fund's performance should carry information on the cost to an employer of making a fund inflation proof, as distinct from its ability to pay a constant money pension. Furthermore, all committees of management of pension funds should have a pensioner's representative in their membership, if pensions in payment are above a critical size — say 300.

G. P. Crawley.
24, Belmont Road,
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FINANCIAL TIMES

Friday May 23 1986

Laura Raun in Amsterdam examines the dramatic election gains for the Christian Democrats

Dutch sobriety wins the day for Lubbers

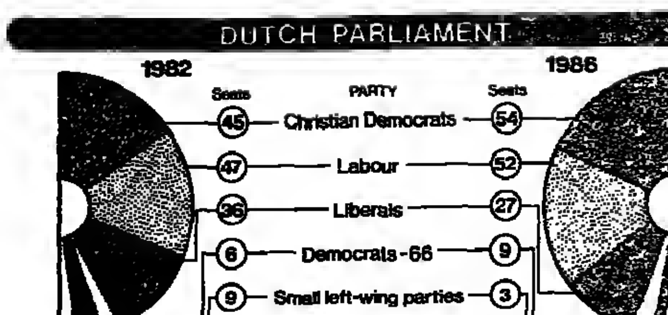
THE STUNNING victory of Mr Ruud Lubbers, the Dutch Prime Minister, in Wednesday's general election signals a broad trust in the sober occasionally severe policies of his centre-right Government and a strong trend towards moderation on the part of voters.

The Christian Democrat-Liberal coalition is set to continue in power and the Dutch have confirmed that they are willing to accept US cruise missiles, economic austerity and even a more modest welfare system.

The surprise victory was a personal triumph for Mr Lubbers, who ultimately convinced voters of the soundness of his policies over the past four years despite harsh criticism from the opposition Labour Party. The Dutch value Mr Lubbers' adroit ability for compromise and the immensely popular Prime Minister, who rose above what little mud-slinging went on, is certain to continue in office with a fresh mandate.

Mr Lubbers' coalition maintained its five-seat margin over the 76 needed in the 150-seat Parliament in a surprise victory that defied public-opinion polls over the last few months. The election, the closest contest in recent history drew nearly 87 per cent of the voters, the largest turnout since 1981.

The centrist Christian Democrats surged in strength, adding nine



Ruud Lubbers

seats for a record total of 54, making them the largest political party in Dutch history. The spectacular gains by the Christian Democrats offset the nine-seat loss registered by the right-of-centre Liberals, their junior coalition partners. The Liberals have suffered through brash leadership and strident policies.

The Labour Party's gains of five seats for a total of 52 fell far short of expectations, especially after the windfall of the Chernobyl nuclear disaster. The accident had provided an opportune rallying point for the Labour Party, which vehemently opposes nuclear energy. Persistently high unemployment ought also to have helped.

The Labour Party is expected to engage in some serious soul-searching in coming months, with the first victim falling yesterday. Mr Max Van Den Berg, the chairman of the party, resigned.

Dutch sobriety manifested itself in a clear trend toward the middle of the political spectrum. Three of the four mainstream parties gained while the far-right and far-left parties lost. The right-wing parties fell to five seats from seven while the left-wing parties fell to only three seats from nine. The Communist Party disappeared from the parliament for the first time in its history while the extreme right-wing centre party also vanished.

The Christian Democrat-Liberal coalition previously had declared its desire to continue the partnership, the first time that the Christian Democrats, the traditional swing party in Dutch politics, has revealed its intentions before an election.

The partners have promised to continue their policies in broad outline. The Christian Democrats, in their strengthened position, will now be able to dictate a slowdown in the economic austerity measures, particularly in shrinking the ballowed welfare system. A euthanasia proposal will be moulded along the Christian Democrats' more restricted lines and the lingering possibility of a commercial television channel diminishes.

The Netherlands will stick with its long-delayed decision made last year to deploy 48 cruise missiles on Dutch soil by the end of 1988 unless a US-Soviet disarmament treaty is agreed first. The Socialists had threatened to renege on the Dutch-US treaty accepting the nuclear missiles but voters appeared wary of risking damage to the Netherlands' reputation.

In the wake of Chernobyl, Mr Lubbers' Government had already frozen plans to build at least two nuclear power stations until a full report is made on the Soviet accident. The preparations for the plants are likely to be delayed for months if not years while the Hague ponders anew the wisdom of nuclear energy and tries to gauge the depth of anti-nuclear sentiment.

The main question is how quickly a coalition accord and cabinet can be formed.

Queen Beatrix will meet leaders from the political parties today after consultations yesterday with advisers from parliament and the council of state – a panel of elder statesmen – to decide whom to appoint as informateur or formateur.

An informateur historically lays the groundwork for a formateur who actually forges the new cabinet, in which he usually serves as prime minister.

An informateur has preceded a formateur in every government since 1959, but this year the picture appears to be clear that if only a formateur is necessary, Mr Lubbers is the obvious candidate.

UK plans to ease burden on business

By Philip Bassett in London

THE British Government yesterday announced deregulation proposals aimed at reducing administrative burdens on business, promoting enterprise and in turn creating jobs.

The proposals, which were sceptically welcomed by small businesses but drew hostile comment from opposition parties, the Institute of Directors and the Trades Union Congress, are the second part of a three-stage attack on government regulations that Lord Young, the *Employment Secretary, believes restrict enterprise.*

Lord Young said the measures would "help jobs without losing any necessary protection." They presented a balanced programme that recognised that the Government had a role in providing legal protection for workers, consumers and the general public, but also recognised that "unnecessary regulations act as an inhibition to business growth and job creation."

The policy statement reviews the proposals put forward in a similar document last year and sets out about 80 more.

Among the main proposals are:

- Setting up a review of the impact of value-added tax (VAT) on small businesses, including looking at issues such as payment of VAT in cash and by instalments.
- Providing for changes in planning regulations to allow for a wider range of changes of use without planning permission, and allowing businesses with dual planning permissions to switch between uses of property without seeking further permission.
- Deciding that small companies must have their accounts audited, but rejecting the idea that statutory health and safety provisions should not apply to small businesses.
- Deterring "ill-founded" unfair dismissal claims by charging applicants £25 to appear before an industrial tribunal.
- Widening the small businesses' exemption on keeping jobs open for women who have recently had a child.
- Restricting the range of industrial relations duties for which lay union officials must be allowed time off with pay.
- Consulting on the amount of information companies are required to file with registration offices.

Details, Page 12, Editorial comment, Page 24

European airlines seek greater US access

BY PAUL CHEESERIGHT IN BRUSSELS

LEADING European scheduled airlines have started a campaign to *gain access* to the US markets on the scale that American carriers have to the European markets.

Concern about access to the US market has become particularly acute in the face of a downturn in North Atlantic passenger traffic. Potential American passengers have shied away from Europe because of terrorism fears and the effects of the Chernobyl nuclear disaster.

Individual airlines are taking up the question with their national governments which have bilateral agreements with the US covering landing rights and capacity. The Association of European Airlines has raised the issue with the European Civil Aviation Conference, which negotiates tariff zones with the US.

Those moves were outlined yesterday by Mr Karl-Heinz Neumeister, secretary-general of the association that groups 20 flag-carriers.

The general argument by the airlines is that US carriers have easier access to the European market than European carriers have to the US. Not wishing to be accused of protectionism, the airlines want discrimination, as they see it, against them ended by the grant of equal facilities, rather than through the exclusion of US carriers.

Mr Neumeister cited three areas where the European airlines feel at a disadvantage:

- US carriers can serve more cities in Europe than European airlines can serve in the US;
- US carriers can establish traffic "hubs" in Europe but European airlines cannot carry domestic traffic in the US;
- Deregulation of the US aviation sector has hindered the ability of European carriers to make reservations in the US.

Greater access to the US market, it is felt, would give the European carriers a chance to check the fall in their market share of the North Atlantic routes, which on average account for 25 to 30 per cent of their total business.

Lufthansa results, Page 27

Tough trade bill passed by House

BY STEWART FLEMING IN WASHINGTON

THE HOUSE of Representatives yesterday approved a sweeping plan to toughen US trade laws as President Ronald Reagan stepped up Administration attacks on the bill and gave a warning that if the legislation became law, "it could plunge the world into a trade war."

In the final vote, 49 members of the President's Republican Party joined with the largely Democratic *majority to approve* by a vote of 295 to 115 a bill which has been rushed through the House by Speaker Thomas P. O'Neill.

The bill faces an uncertain future, however. Although trade reform legislation is pending in the Republican-controlled Senate, some of it just as tough as proposals approved by the House yesterday, Republican leaders will be reluctant to approve a bill that would embarrass their President and split the Administration and its Republican allies on Capitol Hill in the weeks before the mid-term elections in November.

But the fact that 59 House Republicans voted with the Democrats to pass the legislation demonstrates the unwillingness of Republican Congressmen to support the Administration's trade policies and leave their Democratic Party rivals free rein in trying to turn the issues raised by the $150bn trade deficit to their advantage in November.

The White House has launched a fierce attack on the House legislation, elements of which might heighten trade tensions with important trading partners and sensitive neighbours such as Mexico and Canada.

Behind the White House attack is the judgment that by painting the *bill as a vehicle designed by the* Democratic Party in the hope of gaining votes in November, the Administration can erode Republican support for the proposal.

The bill provides, among other things, for a strengthening of US trade laws to combat allegedly unfair foreign trade practices. It also seeks to limit presidential discretion in deciding when and how to retaliate against unfair trade and to increase the pressure on foreign countries to open up their markets to US products, notably telecommunications equipment, and to respect US *intellectual property rights.*

Kodak to compete in $5bn battery market

BY PAUL TAYLOR IN NEW YORK

EASTMAN KODAK, the world's largest photographic products group, yesterday launched itself into the $5bn-a-year worldwide consumer battery market, announcing a range of high-performance, long-life batteries – including what Kodak claims is the first ever 9-volt lithium power cell for mass consumer use.

Kodak's entry into the booming battery business represents a big effort by the US-based multinational to boost sagging earnings with a new, high-margin consumer product range. It might signal a challenge to existing market leaders such as Ralston Purina's recently acquired Eveready business and Dart and Kraft's Duracell brand name.

While the 9-volt lithium battery forms the spearhead of Kodak's push into the consumer battery market, the group said it also planned to offer a full range of premium-quality alkaline batteries together with so-called "button" batteries.

The new range will be rolled out in the US, which accounts for 23 per cent of the 10bn batteries sold annually. The products will be offered in Europe and other world markets from next year.

The group said the new lithium cell would last more than twice as long as today's best high-performance alkaline batteries and have a 10-year shelf life compared with two or three years for traditional alkaline batteries.

Kodak, which saw its first-quarter profits shrink by 58 per cent as the group continued to battle with foreign competition and weak pricing in many of its traditional markets, has recently launched a number of initiatives aimed at bolstering earnings. In particular, the group re-entered the 35mm camera market and has announced a series of joint venture biotechnology partnerships.

Mexico to seek accord with commercial banks

BY DAVID GARDNER IN MEXICO CITY

MEXICO will soon seek a new debt agreement with its commercial bank creditors regardless of whether it succeeds in establishing a new economic stabilisation programme with the International Monetary Fund (IMF), Mr Jesús Silva Herzog, Finance Minister, said in Mexico City yesterday.

"We are working with the IMF . . . but if there is no agreement then we will be going to the banks anyway," he said.

The banks, which lent 70 per cent of Mexico's public-sector debt when oil prices were over $30 a barrel, took a risk "which in banking industry terms should be acknowledged" now that the price of crude had fallen by more than half, he said.

The minister said the end of the long negotiations with the IMF, which have been going on since last autumn, was now approaching. Mexico "would know very shortly" whether it could reach agreement, although he could not discount the possibility that the *talks might* break down.

At the core of the talks is the size of the public-sector deficit, which the IMF wants cut to something like Mexico's original target of 5.1 per cent. Mexico has been arguing that the deficit should be held to between 9 and 10 per cent.

"To go from 10 per cent to 5 per cent in six months is not realistic, not possible, and is a purely academic idea," Mr Silva Herzog said.

Senior Western officials believe, however, that in recent weeks the two sides have been edging towards a compromise, with the IMF raising its ceiling on the deficit to around 7 per cent.

Whatever happens, the minister said Mexico would still insist on reduced debt-service payments. "We are not married to a specific formula but a concept, which can be boiled down to the alleviation of the cost of our debt."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	22	72	Dubrovnik	S	26	79	Malta	S	29	84	Rhodes	S	24	75
Algiers	S	27	81	Edinburgh	C	11	52	Manchester	C	13	55	Rio de J'o	F	33	91
Amsterdam	S	15	59	Faro	S	24	75	Manila	S	34	93	Rome	F	23	73
Athens	S	26	79	Florence	F	29	84	Melbourne	F	18	64	Salzburg	S	19	66
Bahrain	S	35	95	Frankfurt	F	20	68	Mexico City	S	24	75	San Francisco	F	17	63
Bangkok	C	32	90	Funchal	C	19	66	Miami	C	31	88	Seoul	S	22	72
Barcelona	S	22	72	Geneva	S	20	68	Milan	S	27	81	Singapore	F	32	90
Beirut	S	25	77	Gibraltar	C	21	70	Montreal	C	17	63	Stockholm	F	17	63
Belfast	S	11	52	Glasgow	F	9	48	Moscow	C	14	57	Strasbourg	C	20	68
Belgrade	F	28	82	Guernsey	C	12	54	Munich	F	18	64	Sydney	S	21	70
Berlin	F	19	66	Helsinki	C	17	63	Nairobi	C	22	72	Taipei	R	19	66
Biarritz	S	24	75	H. Kong	R	22	72	Naples	S	26	79	Tangier	S	28	82
Bombay	F	32	90	Innsbruck	F	19	66	Nassau	C	30	86	Tel Aviv	S	25	77
Bordeaux	S	21	70	Inverness	F	9	48	New Delhi	S	34	93	Tenerife	S	24	75
Brussels	S	17	63	Islamabad	S	32	90	New York	C	22	72	Tokyo	C	19	66
Budapest	F	24	75	Istanbul	C	22	72	Nice	S	24	75	Toronto	C	15	59
B. Aires	F	22	72	Jakarta	S	31	88	Nicosia	S	28	82	Tunis	S	28	82
Cairo	S	26	79	Jersey	S	17	63	Oporto	S	19	66	Valencia	F	23	73
Cape Town	S	19	66	Jo'burg	S	20	68	Oslo	F	13	55	Venice	F	26	79
Caracas	C	28	82	Lima	S	22	73	Paris	F	18	64	Vienna	S	23	73
Casablanca	S	22	72	Lisbon	S	23	73	Peking	S	31	88	Warsaw	S	17	63
Chicago	C	19	66	London	F	15	59	Prague	F	19	66	Washington	–	–	–
Cologne	C	19	66	Los Angeles	S	23	73	Reykjavik	F	7	45	Zurich	F	19	66
Copenhagen	F	16	61	Luxembourg	C	15	59								
Corfu	S	28	82	Madrid	S	25	77								
Dallas	–	–	–	Majorca	S	26	79								
Dublin	F	11	52	Malaga	S	25	77								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Thatcher pledge on tax

Continued from Page 1

During her speech, Mrs Thatcher recognised the CBI's concern that costs in the UK were rising far faster than those in West Germany and Japan. "If that goes on it will inevitably end in lost jobs – the very last *thing* we *all want.*"

The Prime Minister said she was "very glad" to hear the CBI say its members "have a responsibility to ensure that competitiveness is not eroded by increased labour costs." She noted that the CBI had started a series of meetings with companies on the issue. "A great deal depends on the outcome," she said.

Mrs Thatcher also recognised that rationalisation in industry after industry, although long overdue, was not enough to give hope to the unemployed, and not enough for future success.

She emphasised that "the efficiency [rationalisation] brings should be the prelude to further expansion. Only new enterprise would create the new jobs. We need to attack with renewed purpose and vigour the markets of the world."

Mrs Thatcher discussed for the first time in a major speech the recent evidence of a slower growth than expected in industrial production in the UK and its main trading partners in the last six months or so. She said that was probably associated in part at least with the inevitable periods of adjustments and changes in exchange rates and oil prices seen over the past year.

US draws up weapons plan

Continued from Page 1

ing them in peacetime remain unchanged.

Britain had accepted that the US should moderise its ageing stocks *so that Nato could have a proper de*terrent t much more substantial Warsaw Pact chemical weapons. But the Government hoped tht US production would persuade the Soviet Union to conclude a ban on all chemical weapons in the current Geneva talks.

For the UK, the most sensitive issue of any contingency plan, particularly in the wake of the US attack *on Libya from US bases in Britain,* concerns the condition under which the bases could be used

THE LEX COLUMN

Noblesse oblige

National Westminster's solo attempt to march down to the 10 per cent base rate line must rank among the stranger base rate manoeuvres since the clearing banks were given the responsibility of setting their own lending rates five years ago.

Despite the easier monetary conditions that the Bank of England has been promoting this week – miscellaneous bill repurchases at soft rates can retrospectively be seen as a blatant carrot to the clearers – this is probably the least expected cut of the entire series to date. It is a rare cut in base rates that stops the markets in mid-rally, but gifts from NatWest are carefully scrutinised these days.

Against a murky background of gilt-edged yields that were discounting single figure base rates with more conviction a month ago than they were yesterday afternoon, it was particularly hard for the markets to pick up the NatWest line. More than usual, this would appear to be a market-determined move that betrays political nuances. Though the other clearers will presumably follow NatWest's lead this morning, their lack of a former Government minister in the boardroom might have made it harder to see the commercial logic of a cut at this point.

In the *light of mortgage cuts that* are already in the pipeline, and the reflationary growth of disposable incomes, the move from 10½ to 10 per cent is not going to make much difference to UK activity in the second half of the year, though it will scarcely slow things down in the real economy.

If there is to be a general downward movement, particularly one extending below the NatWest benchmark, the more visible effects should be seen rather more rapidly in the exchange rate. That has remained firmer than is consistent with a healthy balance of trade, at least in the cheap-oil world that seems likely to persist this year. Perhaps, however, that is the political nub of it; just conceivably the foreign exchange markets are being prepared for a leap into the EMS over the long weekend.

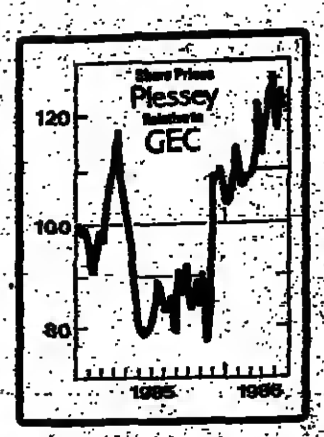
Plessey

With the shadow of Lord Weinstock looming, Plessey played the straightest of straight bats yesterday in producing full-year profits up 4 per cent at £170.2m. Such manoeuvres as pension fund clawbacks, reflection in provisions, and cuts in gallium arsenide research and development have been steadfastly eschewed. But Plessey was equally po-faced yesterday about the current year's performance. The overwhelming impression is that all the firepower a major defence contractor can call on is being kept in reserve for the warfare that could ensue if the Monopolies Commission gives the all clear to GEC.

Plessey has, almost in passing, rebutted one of GEC's main ploys: that the target company is leaking cash. Net cash at £192m is not of Weinstockian proportions but represents an inflow of £80m over the year; the previous year's outflow of £50m was very much bold type in one of the GEC attacking documents.

Telecoms margins were narrower as the cash cow of the old analogue systems dried up, and the less profitable System X business took over. This problem is set to become more pronounced from next month when BT switches to competitive tendering, *instead of Buggins' turn.* Plessey yesterday could not resist repeating what a wonderful thing it would be if it could have GEC's *System X business. The path to a merg*er of these businesses is certainly not cut off by a rejection of a straight takeover of Plessey by GEC.

The only fancy footwork needed by Plessey yesterday was to explain away a 15 per cent drop in the order book. The delay in the placing of the next tranche of orders for the Ptarmigan project is the main reason, but even a flat order book is hardly what Plessey's defending merchant bankers would have liked to see. Elimination of losses at Stromberg Carlson and an increase in interest receivable, should see Plessey through to about £190m pre-tax this year. At 219p, a price that puts the shares on a prospective multiple of 13, with any bid, but GEC, nobody would see much of a premium in that.



Retail deals

Selling short in a takeover bid is one of the things that people are not supposed to do, for fear that the outcome might be settled by selling shares that do not really exist. But Dixons has found a new and relatively respectable application for the idea, by going short of all its future business, connected with Woolworth's Comet subsidiary to Granada for £125m (net of any inter-company loans to its present parent).

There is room for argument on several scores, including the general ability of two public companies doing deals which concern assets that are owned by a third. But it could be overdoing it in a grown-up capital market, to draw any moral conclusions.

The bargain will not be activated unless Dixons become the owners of Woolworth, and that is an issue which is not going to be resolved for some weeks to come. Meanwhile, Granada has shown that it is neither trifling, nor just doing Dixons a favour, by going ahead and underwriting the vendor placing that is needed to provide Dixons with a cash consideration.

The price is perhaps a little lower than Woolworth could have obtained for the same assets, but it does at least own them – so there would be no discount for undertaking. And since Dixons' main objective is to buy Woolworth, rather than to get the last penny for Comet, it is evidently worth a few millions to make it quite clear to the OFT that Dixons is not after a monopoly position in the out-of-town electricals trade.

It may also have been worth a little to Dixons to sell the option to someone other than the formidably competitive Harris Queensway. What a coincidence that Harris chose yesterday to announce that it was getting closer to GUS, taking on GUS's Times Furnishing business in exchange for a 23 per cent stake in Harris. If that was the portent for an eventual reverse takeover of GUS, the market saw it as worth £1 off the GUS share price.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Friday May 23 1986

Renault to end support for loss-making unit

BY PAUL BETTS IN PARIS

RENAULT, the troubled French state-owned car group, plans to end financial support next year for its loss-making factory automation and robotics subsidiary.

The subsidiary, Renault Automation, which lost FFr 40m ($5.6m) last year, was formed two years ago as part of the state car group's efforts to diversify into high-technology businesses. But the decision to stop supporting this subsidiary next year reflects the state group's new strategy of refocusing its operations on its core car and truck activities.

Renault is now looking for industrial partners to take a stake in the automation and robotics business. Mr Adrien Bertetto, head of the subsidiary, said there had already been a broad range of talks with foreign groups including General Motors-Fanuc, the GM robotics subsidiary, and Asea of Sweden, over possible associations between them and Renault Automation.

However, any joint venture or association would probably be the first step in the gradual withdrawal from the business by the state car group.

Renault has already sold or shed a number of assets as part of its general recovery effort.

Mr Bertetto said Renault would, however, continue to support the robotics business this year with FFr 80m in aid matched by a similar amount from the French Government.

Under a three-year robotics plan, the subsidiary was promised FFr 480m in support between 1984 and 1986 with FFr 240m from its shareholder Renault and another FFr 240m from the Government in direct subsidies and soft loans.

But Mr Georges Besse, the Renault chairman, has made it clear that the state car group, with losses of FFr 10.9bn last year, would not continue supporting the robotics subsidiary next year. At the same time, Mr Bertetto said, it was unlikely the Government would extend any significant aid next year.

He added that the subsidiary would either have to find a new partner or would be forced to cut drastically its research and development spending next year.

The factory automation and robotics business expects its sales to rise to between FFr 1.4bn and FFr 1.5bn this year from FFr 1.23bn last year. Mr Bertetto said performance this year was likely to range between break-even and a loss of FFr 40m, similar to last year.

Although the subsidiary's sales rely heavily on the automobile industry – Renault Automation supplies robots and is negotiating deals with Austin Rover and Ford UK – it also supplies automated equipment to other industrial sectors.

Mr Bertetto said about 30 per cent of sales now involved a range of other sectors including aviation, defence, electronics, farm machinery and telecommunications.

Benetton to offer financial services

By Alan Friedman in Milan

BENETTON, the Italian clothing company which earlier this month announced plans to open nearly 800 shops this year and to go public on the Milan bourse, says it is planning to diversify into the financial services sector in Italy and abroad.

Mr Luciano Benetton, the 51-year-old founder of the sweater and jeans group, said: "The future will include diversification in retailing, financial services, banking and elsewhere."

Benetton's plan to develop the financial services business will call for the company to achieve "within two years a 50-50 mix in group turnover between industrial and financial revenues," according to Mr Alvo Palmeri, Benetton's managing director.

In particular, Benetton says it is planning to expand its factoring and leasing subsidiaries in Italy and abroad. It also plans to form a financial services and venture-capital company in Milan in the autumn which will engage in currency swaps, syndicated loans, corporate finance and other investment banking activities.

Benetton already controls two leasing and factoring companies and says it has just received authorisation from the Ministry of Foreign Trade in Rome to operate in the factoring business outside Italy. The clothing company, Italy's largest, with L880bn ($567m) of turnover, also disclosed that it had bought 10 per cent shareholdings in leasing companies in France and West Germany.

These companies are controlled by Banca Nazionale del Lavoro (BNL) Italy's largest bank.

BNL is a 30 per cent partner in Infactor, the factoring business in which Benetton has a 80 per cent stake and which last year did business worth L260bn. Benetton's leasing subsidiary did business worth L150bn in 1985.

The most ambitious of Benetton's plans is its intention to launch a financial services company in partnership with another leading Italian clothing manufacturer. The company, to be started with an initial capital of L5bn would engage in a variety of activites which seem highly unusual for a clothing maker.

But Italy's regulations permit non-banks to engage in corporate finance consultancy and venture-capital activities.

Lufthansa earnings fall after big depreciation

BY PETER BRUCE IN BONN

LUFTHANSA, West Germany's state-owned airline, yesterday reported net income for 1985 of DM 63m ($28m), DM 99m down on 1984. The airline said it had deducted DM 83m in operating profit to pay for a special depreciation programme.

At the same time as it announced the purchase of six long-range Boeing 747-400 Jumbo jets for DM 1.8bn, Lufthansa also gave notice that it intended flexing more muscle on North Atlantic routes this year than it claimed to have done in 1985.

Accusing US airlines of "trying to drive us out of the market," Mr Heinz Ruhnau, Lufthansa's chairman, said that his airline's share of the traffic between West Germany and North America had fallen to 39 per cent last year.

"We cannot accept this," he said. "If we don't want to leave the field one day, then we have to defend our position in the market. This will demand a certain price. No-one will make money on the North Atlantic, but that is the price of unregulated competition."

Mr Ruhnau also said that, in addition to problems on the North Atlantic routes, the South African political crisis had damaged profitability on that route and that lower oil prices were hitting Middle East markets. He said the airline was planning a major expansion of its services to the Far East.

Lufthansa said its cargo capacity would probably expand faster than passenger capacity. The airline, which already owns a cargo affiliate, Condor, said cargo had become its one main growth area. A third all-cargo aircraft had been deployed last year, alongside two extra B747 "kombis," which carry passengers as well. Another cargo Jumbo may enter service next year.

Overall, Lufthansa operated its passenger services at a loss. The company said its "revenue load factor" had slipped last year to 1 per cent below the breakeven load factor of 64.5 per cent per average flight. The airline achieved an operating profit of DM 152m despite a DM 54m loss on flight operations. In the first four months of this year, that revenue load factor at 62.9 per cent was even lower than last year's average.

Lufthansa nevertheless defended the decision to buy the six new 747s from Boeing as necessary for fleet renewal (the aircraft will begin to be delivered in 1989).

Lufthansa flew nearly 16m passengers last year, a rise of 3.8 per cent. Turnover rose 3 per cent to DM 10.68bn.

Krupp Stahl lifts profits

By Our Bonn Staff

KRUPP STAHL, the steel-making arm of West Germany's Fried Krupp engineering group, more than doubled its net profits last year from DM 23m ($10m) in 1984 to DM 57m, despite only a 3.2 per cent increase in turnover to DM 6.2bn.

Although a decision to delay the transfer of about DM 70m to a pension reserve helped to boost profits, the company's performance is further proof of the new strength being shown by West German steel producers after three lean years at the beginning of the decade.

Krupp, in particular, has pushed through a dramatic restructuring programme since 1980. About 13,700 jobs were cut during the programme, which cost DM 900m, half of which was subsidised. The company said a further 2,500 jobs would be lost this year, some of which had been announced earlier, cutting the total workforce to slightly fewer than 26,000. Liquid steel-making capacity – 6.8m tonnes in 1975 – has been cut to 5.4m tonnes.

Krupp Stahl, the chief executive of which, Dr Alfons Godde, resigned earlier this year, believes it has just about reached the end of this rationalisation process. It is being helped by firmer prices in Europe and by the weakness of the dollar, in which steel's raw materials are priced.

Krupp is also not suffering as badly as some of its West German competitors in exchange rate-sensitive export markets, particularly in the US.

Krupp Stahl's finance director, Dr Gunter Fleckenstein, said he expected profits to climb strongly again this year and that 1987 would probably see further improvement. The company, particularly strong in stainless and special steels, is now producing 90 per cent of its steel on cost-effective continuous casting machines.

KHD year-end results hit by weakness in export markets

BY OUR BONN STAFF

KLÖCKNER-HUMBOLDT-DEUTZ, the Cologne-based tractor, diesel engine and industrial plant maker, has announced n 4.5 per cent fall in group net profits for 1985, to DM 57.4m ($25.6m). KHD's consolidated group turnover fell nearly DM 1.22bn to DM 3.74bn. The company blamed problems in some of its traditional export markets for the fall.

Mr Bodo Liebe, KHD's chairman, also gave a warning that business in the first four months of this year had not been satisfactory. Parent company turnover, at DM 976m, is down 9 per cent on last year, and incoming orders have fallen 23 per cent.

The 1985 accounts provide an incomplete picture of the group's performance, however, because KHD's two big purchases last year, the West German diesel engine maker MWM and, in the US, the Allis Chalmers farm equipment business, have ont been consolidated. Both acquisitions made losses in 1985.

KHD did say, though, that even with the inclusion of MWM, and from June 1985 of the old Allis Chalmers operations, total unconsolidated turnover has also fallen, from DM 5.7bn to DM 5.4bn. Partly, this is because big cement plant contracts, which lifted sales last year, have not been repeated.

Mr Liebe estimated that economic difficulties in Greece and Australia and political strife in South Africa, leading to the collapse of agricultural equipment markets in those countries, bad cost KHD some DM 85m.

In addition, KHD's motor division, where turnover actually rose by 6 per cent to DM 1.8bn, experienced severe difficulties and continues to do so in oil-producing countries. The group's strength in motors remained its high-speed, predominantly air-cooled engines, particularly in the domestic market.

Despite a 24 per cent increase in turnover in medium-sized and large diesels, brought about mainly because of some success with a new ship diesel, Mr Liebe said tough rationalising would soon be carried out at MWM.

The KHD board intends recommending payment of a DM 9 dividend for 1985, the same as for 1984.

Seagram 'still interested' in Hiram Walker

By Robert Gibbens in Montreal

SEAGRAM of Canada is still interested in buying Hiram Walker Resources' liquor business if it becomes available as a result of current litigation in Ontario, Mr Edgar Bronfman, chairman, said.

In order to fight off a bid from Gulf Canada controlled by Reichman Brothers of Olympia and York Developments, Hiram Walker's management sold the liquor assets to Allied-Lyons for more than C$2bn (US$1.46bn). Gulf Canada later won control of Hiram Walker and has since claimed management had no right to sell the liquor assets.

Seagram, during the Hiram Walker battle with Gulf, had offered to buy the liquor business. But Mr Bronfman, speaking after the Seagram annual meeting, would not comment further "because of continuing litigation."

He said Seagram's profit this year should be better, for although the spirits business would be flat, the contribution from its investment in Du Pont of the US should be higher.

Mr Bronfman said it cost Seagram about US$2.6bn to buy 22.5 per cent of Du Pont and it would take another US$465m to raise the holding to 25 per cent, the maximum agreed last March under n new shareholder agreement with Du Pont management.

The present market value of the Seagram holding is US$4.25bn and average annual return on its investment since 1981 has been more than 15 per cent. The investment has been a major diversification for Seagram though it may make further moves in that direction.

Viacom buys back Icahn group stake

BY PAUL TAYLOR IN NEW YORK

VIACOM INTERNATIONAL, the US broadcasting and cable television group, said yesterday that it had bougbt back the 16.95 per cent stake in the New York-based group held by Mr Carl Icahn, the Wall Street stock trader and chairman of TWA. The complex transaction appears to give Mr Icahn little, if any, immediate profit oo his $230m outlay.

Viacom had earlier rebuffed Mr Icahn's offer to acquire the group for $75 a share in cash. His proposed bid had valued Viacom at about $1.575bn.

Viacom announced yesterday that it had repurchased all the 3,498,200 shares held by Mr Icahn in exchange for $62 a share in cash plus warrants to acquire 2.5m Viacom common shares and $10m in commercial airtime on the group's commercial television stations. In addition, Viacom revealed that Mr Icahn had agreed not to purchase additional Viacom securities or seek control of the group for at least 11 years.

Mr Icahn and his group had steadily built up their stake in Viacom ahead of the takeover proposal revealed earlier this week in a US Securities and Exchange Commission (SEC) filing. Mr Icahn had paid an average of $66 a share for the stake.

The warrants entitle Mr Icahn to purchase up to 2.5m Viacom shares for up to six years at a formula price to be determined, but based upon trading in Viacom's stock over a 20-day period. However, the exercise price cannot be less than $85⅝ a share or greater than $172 a share. The warrants also carry certain other restrictions regarding their sale to other parties. None of the agreement details Is adjusted for Viacom's recently announced two-for-one stock split.

Viacom recently stepped up its attempts to fend off an unwelcome takeover bid by telling the SEC that it planned to sell $250m in debt securities together with 7.5m units, priced at up to $38 each, consisting of one Viacom common share and a warrant to buy one share. If the offerings become effective, they could raise more than $500m before the warrants are exercised.

In its SEC filing, Viacom said some of the proceeds of the proposed offerings might be used to buy back its common stock – but at that stage explicitly ruled out buying back stock from Mr Icahn or paying "greenmail" to him.

Citicorp makes $680m offer for Quotron

By Our New York Staff

CITICORP, the New York-based banking group, yesterday launched a $680m, or 19 cent-a-share, cash tender offer for Quotron, the Los Angeles-based electronic information group.

Citicorp's action follows the US Federal Reserve Board's conditional approval of the planned acquisition earlier this week. In approving the acquisition the Fed said that, if the deal went through, Citicorp would have to shed Quotron's hardware assembly operations within two years.

The cash tender offer represents an attempt by Citicorp to go directly to Quotron's shareholders after Quotron's board rejected the unsolicited bid last month as "inadequate". However, Citicorp said that, in the wake of the Fed's approval, it had held discussions with Quotron's chairman, Mr Milton Mohr, and that based on these discussions it hoped Quotron would endorse the tender offer.

Quotron declined yesterday to comment on the Citicorp move. Separately it cancelled an nppearance before New York security analysts.

Some Wall Street analysts believe Citicorp might still have to sweeten its bid to win shareholder approval. They noted that Quotron's stock was marked up above the $19-a-share tender offer.

Intl. Thomson to buy Cordura

By Bernard Simon in Toronto

INTERNATIONAL Thomson Organisation, the Canadian-controlled publishing, energy and travel group, is to expand its fast-growing specialised publishing interests in the US by acquiring Cordura of Los Angeles for $203m.

Cordura, with 1985 net earnings of $9.3m on revenues of $53.4m, publishes the Mitchell motor repair manuals. Other products include printed and computerised repair estimating data for insurance companies. A minor part of its business involves management of employee benefit schemes, such as workmen's compensation claims.

The Cordura purchase is ITO's third US publishing acquisition this year.

The Cordura board has recommended that shareholders accept ITO's planned cash tender offer of $35 a share. ITO also has a conditional option to buy 1.1m newly issued Cordura shares, equal to 18.4 per cent of the shares outstanding, at $32 each.

Kaufhof sales boosted by new acquisitions

BY DAVID BROWN IN FRANKFURT

KAUFHOF, West Germany's second-biggest retail group after Karstadt, lifted turnover in the first four months of this year by 7.3 per cent to DM 2.86bn ($1.27bn), compared with the same period a year ago, as a result of new acquisitions.

Although an expected upturn in spending on consumer goods has not yet made itself felt in Kaufhof's business areas, earnings for the first four months were described as significantly better than n year earlier by Dr Jens Odewald, the managing director.

Kaufhof said sales revenue in 1985 had risen slightly from DM 8.4bn to DM 8.5bn during broad restructuring.

A decline in the revenue of Kaufhof's retail operations due to closures was offset by increases in its tourist services unit and in its mail-order subsidiary, F. Wenz.

The group earlier announced an increased 1985 payout from DM 6.50 n share to DM 7, after slightly raising net profit from DM 52.5m to DM 53.7m.

In the first four months the Kaufhof retail operations managed a small increase in turnover while the group's low-price Kaufhalle retail subsidiary continued to weaken.

West German consumer demand has been buoyed by low inflation, tax cuts and the fall in the oil price. Much of this improved demand has been focused on the services sector and specialised retail stores.

Deutsche Bank buoyant

BY OUR FINANCIAL STAFF

DEUTSCHE BANK, the biggest West German bank, reports n strong rise in business volume during the early months of 1986 and as a result is confident of achieving another good year.

The bank said its buoyant trading levels had led to an increase in interest surplus this year despite some lowering of interest margins.

Private-sector loan demand had been hesitant, but advances to the German corporate sector had risen strongly.

DG Bank reports an increase in net profits for 1985 and says operating results have risen strongly at the start of 1986. Net profits for last year totalled DM 192.4m, against DM 117.7m in 1984.

Tokyo trading houses counter strong yen

BY YOKO SHIBATA IN TOKYO

THREE of Japan's major trading houses have reported modest growth in sales and profits in the year to March, hindered primarily by the yen's strength.

The surge in the yen's value cut sales of C. Itoh by Y630bn ($3.73bn) and Y600bn for Marubeni. Sumitomo dislodged Marubeni as the fourth-largest general trading house in terms of sales. This was largely because the strong yen had a greater impact on Marubeni, which has a higher export ratio than Sumitomo.

A sharp increase was also shown, in Sumitomo's revenues from gold transactions to Y1,150bn from Y600bn. Sumitomo's annual turnover reached Y14,225bn, against Marubeni's sales of Y13,918.5bn.

C. Itoh, the third-largest, enjoyed strong sales of machinery. It wrote off losses of property subsidiaries although these were in part offset by share sales from its portfolio.

Marubeni wrote off Y4.6bn relating to the bankrupt Sanko Steamship. It also set aside Y18.3bn provisions for liquidating Marubeni Maritime, a Liberian shipping subsidiary.

Marubeni's exports of machinery and construction plants increased, and trade in energy and metals between third countries expanded.

Sumitomo said higher export volumes of cars and construction equipment were counterbalanced by the yen's sharp appreciation against the dollar. Imports of precious metals, chemicals and fuels showed a strong increase.

JAPANESE TRADING HOUSES
Parent company results (Ybn), year to March 1986

	Sales	Pre-tax profits	Net profits
C. Itoh	15,324.5 (+9%)	40.58 (+1%)	7.57 (+40%)
Sumitomo	14,225.6 (+8%)	47.61 (+5%)	22.13 (+6%)
Marubeni	13,918.5 (+3%)	41.18 (+9%)	5.4 (−34%)

INTL. COMPANIES & FINANCE

Occidental in chemicals deal

BY PAUL TAYLOR IN NEW YORK

OCCIDENTAL Petroleum, the Los Angeles-based energy group run by Dr Armand Hammer, plans to acquire Diamond Shamrock's chemicals business for $800m in cash. Dr Hammer, Occidental's chairman and chief executive, announced the deal at the group's annual meeting.

The agreement comes hard on the heels of Occidental's $3bn purchase of Midcon and 16 months after a merger agreement between Dallas-based Diamond Shamrock and Occidental fell apart at the 11th hour.

Diamond Shamrock, which despite the energy price slump has been concentrating its interests in the energy sector, announced last month that it planned to sell its coal and chemical operations – two of its biggest and most profitable businesses.

Dr Hammer said the planned acquisition of Diamond Shamrock's chemicals operations – which had sales last year of $736m, operating profits of $121.1m and employs 4,200 people – would be made in partnership with Drexell Burnham Lambert, the Wall Street securities firm.

Tektronix to cut workforce by 10%

BY TERRY DODSWORTH IN NEW YORK

TEKTRONIX, one of the largest US manufacturers of electronic display and measurement instruments, has responded to the continuing sluggishness in the electronic capital goods market by announcing a 10 per cent cut in its worldwide workforce.

The job reductions mean redundancies for 2,000 of the Portland, Oregon-based group's payroll of 19,747, mostly in its home location. Company officers are also taking a 10 per cent pay cut, to be effective immediately.

The moves should not affect the UK operation.

Tektronix, which earned $90m last year on sales of $1.4bn, gave no estimate for the cost of the rationalisation programme, but it said it would be reflected in the current fourth quarter ending on May 31.

Mr Earl Wantland, president, said the labour reduction came as the company took critical measures to improve its market position.

CGE plans to sell 10% of cable unit

COMPAGNIE Générale d'Electricité (CGE), the nationalised French electronics and energy group, plans to sell at least 10 per cent of its cables subsidiary Cables de Lyon on the Paris bourse next month, writes David Marsh in Paris.

The flotation will be made when the subsidiary is launched on the second marché, or unlisted section of the market, on June 6.

Mr Georges Pebereau, CGE chairman, has long planned to seek a bourse quotation for Cables de Lyon in line with the listings of its majority-owned subsidiaries Alcatel and Alsthom Atlantique.

Terms have not yet been decided. Cables de Lyon increased net profits 27 per cent to FFr 70.8m ($9.9m) last year on sales of FFr 3.5bn, up 18 per cent.

New Issue

85,500,000 Shares

FIRST AUSTRALIA PRIME INCOME FUND

The First Australia Prime Income Fund, Inc.

Common Stock

All of these securities having been sold, this announcement appears as a matter of record only.

Prudential-Bache Securities

Bear, Stearns & Co. Inc.

The Nikko Securities Co. International, Inc.

Alex. Brown & Sons Incorporated | **The First Boston Corporation** | **Donaldson, Lufkin & Jenrette** Securities Corporation | **Drexel Burnham Lambert** Incorporated | **Goldman, Sachs & Co.**

Hambrecht & Quist Incorporated | **Kidder, Peabody & Co.** Incorporated | **Lazard Frères & Co.** | **L. F. Rothschild, Unterberg, Towbin, Inc.**

Salomon Brothers Inc | **Smith Barney, Harris Upham & Co.** Incorporated | **Dean Witter Reynolds Inc.** | **Thomson McKinnon Securities Inc.**

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Anderson & Strudwick Incorporated | **Baker, Watts & Co.** | **Birr, Wilson & Co., Inc.** | **Brean Murray, Foster Securities Inc.** | **The Chicago Corporation**

Doft & Co., Inc. | **Evans & Co.** Incorporated | **Howard, Weil, Labouisse, Friedrichs** Incorporated | **Jefferies & Company, Inc.** | **Jesup & Lamont Securities Co., Inc.**

Johnson, Lane, Space, Smith & Co., Inc. | **Johnston, Lemon & Co.** Incorporated | **Laidlaw Adams & Peck Inc.** | **The Milwaukee Company**

Morgan, Olmstead, Kennedy & Gardner Incorporated | **Parker/Hunter** Incorporated | **Raffensperger, Hughes & Co.** Incorporated | **Raymond, James & Associates, Inc.** | **R. Rowland & Co.** Incorporated

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April, 1986

INTERNATIONAL COMPANIES and FINANCE

IFC brings bonds to developing companies. Peter Montagnan reports

Door opens to more borrowers

BELGIAN dentists and their ilk traditionally look askance at private sector companies in developing countries. As a result, few are able to tap the international bond markets, even though many represent relatively sound credit risks in such fast growing parts of the world as the Far East and even Brazil.

This handicap makes it harder for them to obtain long-term funds for investment. It also means companies in developing countries are missing out on the opportunities in liability management offered by the plethora of instruments being created by the revolution in international financial markets.

Slowly, however, the International Finance Corporation (IFC), an arm of the World Bank that specialises in private sector finance, is trying to make some of these advantages available to the developing world.

It has just begun offering a swaps service to clients in developing countries, according to Mr Richard Frank, the IFC's director of financial management and planning. A first deal has been done with a Nigerian battery company which wanted to swap its dollar debt into Swiss francs, and several others are in the pipeline.

The swaps service is a logical extension of the IFC's own involvement as a borrower in the capital markets, where it has been active only for the past 18 months. An attraction to its clients in developing countries is that it brings within their grasp the opportunity (freely available to companies in the developed world) of restructuring at least some of their debt to lock into the low fixed interest rates now available.

Under the swap scheme the IFC undertakes to arrange a swap of debt it has already extended to its client. Though the swap is put together by an investment bank—in the case of the Nigerian company this was Bank of America—the IFC insures the risk to make its client acceptable as a counterparty. It is prepared to do so because it has already made its own careful credit analysis of the company concerned, in which it may also have a separate equity stake.

The amounts of money involved are still very small, but the principles behind it are important, bankers believe. They accord with the aims of the so-called Baker plan for easing the developing country debt crisis, announced by the US Treasury Secretary in Seoul last year. A key objective of this plan is to foster growth in developing countries by nurturing the private sector.

Moreover, the swap idea is just one spin-off from the closer relationships the IFC has cemented with the international capital markets. This link has developed since it started borrowing 18 months ago, in an effort to expand its activities without increasing its reliance on loans from its parent, the World Bank. These new relationships are also helping the IFC in other areas, such as the underwriting of bond issues for developing country customers and the promotion of mutual investment funds.

Mr Frank, in Europe to sign a $50m and Ecu 55m bond issue, said borrowing in private capital markets has jumped in the current year to June 30 to the equivalent of $350m, from $150m previously. The IFC also yesterday launched a SFr 100m private placement, its first market borrowing in that currency.

The IFC became involved in the business of introducing customers to the swap market, partly because it has been arranging swaps of its own. Both the latest dollar and Ecu issues are to be swapped into floating-rate dollars at a rate some 40 to 50 basis points below Libor, which is well below what the IFC would achieve if it borrowed directly in the floating-rate note market.

Unlike the World Bank, which borrows at the most advantageous rate it can achieve and creates a basket of funds for lending to developing countries, the IFC tries to match its borrowing specifically to customers' requirements, which have up till now been heavily concentrated in floating-rate Libor-linked dollars.

This is a type of finance it cannot obtain from the World Bank, traditionally its main supplier of funds, because the bank dislikes Libor, which it regards as excessively volatile, and will borrow floating-rate dollars only at rates linked to US Treasury Bills.

That, says Mr Frank, was another reason why the IFC decided to borrow in its own name. But it has also been lucky in the reception accorded to its borrowings—which are expected to increase again, though only slightly, in 1986-1987—given the radical difference between it and other development institutions. "We have lined up with the best of supranationals."

Yet unlike the World Bank, the IFC lends only to the private sector and never with the guarantee of the host government. Because of its involvement with the private sector, it does sometimes have to get involved in reschedulings and restructurings. Although its liquidity is high at some $500m, the IFC does not have large commitments from its shareholders in the form of callable capital to back up its bond issues. All its capital, which is being increased from $550m to $1.3bn, is paid in and much is used to fund its equity stakes in developing country business.

That makes its $2bn loan portfolio and by implication its bond borrowings, more risky than those of the World Bank and regional development banks. On the other hand, the IFC's leverage is conservative at just over 1:1 and, at some 2 per cent, the margins it charges to customers are higher than those of traditional development banks. Also although it does have problem loans, net income, which in 1984-85 was $28m, has been steadily rising.

Risking one's neck in the private sector involves a lot more discipline in credit analysis than simply sheltering under a government guarantee, says Mr Frank. In addition it is a discipline that can pay off. When its results are published later this year, the IFC will reveal that it has sold some of its equity holdings in Brazil. The profits were substantial in dollars, despite the depreciating cruzado.

Brokers upset by registration proposals

By Alexander Nicoll in Singapore

A ROW is simmering at the AIBD conference over proposed rules for secondary market trading practices circulated to members earlier this week.

Under the rules, on which no formal vote will be taken at the Singapore meeting, a register would be established of about 80 reporting dealers making markets in eurobonds. They would have to meet requirements on price and trade reporting and on many other aspects of their trading.

What has stirred controversy is a proposal that counterparties to deals, many of which are done anonymously through brokers, would be identified at the end of the day. Brokers fear that this would undermine their role, as well as eliminate the traditional discretion of the market.

Traders are divided on the issue, but some feel that disclosure of identities would make for more realistic pricing of new issues, since houses which agreed to co-manage a deal would be unable then to unload their position anonymously onto the grey market at a price being supported by the lead manager. Disclosure would bring the Eurobond market into line with the US Government securities market.

Some traders want to limit the role of brokers because they believe brokers show their prices to end-investors instead of sticking to a strictly inter-professional role. Brokers fiercely deny the charge. The rancour could break into the open in the formal session today at the annual meeting.

Market hangover creates curb on new issue activity

BY CLARE PEARSON

AN ERRATIC US Treasury bond market and a high volume of unplaced paper, the debris of Wednesday's issuing spree, in the Euromarket made syndicate managers fight shy of launching new Eurobonds yesterday. Only two new fixed-rate bonds, totalling $250m, emerged, as opposed to Wednesday's $750m worth of new paper of this type.

Orion Royal Bank launched a $150m 8¼ per cent seven-year issue for Royal Bank of Canada. The bond was priced at 100½ to yield more than 70 basis points over comparable US Treasury bonds at launch. Morgan Stanley issued a $100m bond for Yasuda, the Japanese trust bank, bearing a coupon of 8¼ per cent and price of 101⅛. This bond supplied a yield of 68 basis points over US Treasury bonds at issue.

Neither of these levels looked attractive in the light of the poor trading behaviour of Wednesday's bonds. GMAC's $300m 8¼ per cent seven-year bond, for instance, maintained a yield differential against US Government issues of 70 basis points. This unchanged from the level at which it had been launched the day before yesterday, when US Treasury bonds prices were showing an upturn. Dealers had expected its spread to tighten slightly. The welter of other new deals in the market prevented this.

Both Royal Bank of Canada's paper and Yasuda Trust's issue were quoted at prices outside the level of the total fees yesterday. Other recent issues, especially the Kingdom of Belgium's $300m 8¼ per cent seven-year bond, suffered similar fates.

Daiwa Europe launched an $80m equity warrants bond for Hanwa, the Japanese trading company. Pricing will take place at the end of the month, but the coupon was indicated at 3¼ per cent and price at par. The expected exercise premium on the warrants is 2.5 per cent, and the share price stood at Y885 yesterday.

Elsewhere in the equity-linked sector D'Urban's recent $40m equity warrants deal was priced with a 3¼ per cent coupon. The warrants' exercise price was set at Y678 and the fixed exchange rate at Y170.9/dollar. A recent convertible for Ronse Company was priced late on Wednesday night with a coupon of 5¼ per cent. The conversion price was set at $39¼, representing a premium of 25 per cent over Tuesday's close.

Nomura International brought a Y45bn five-year issue for Commonwealth of Australia. This was the largest Euroyen issue since Bank of China's Y50bn deal at the beginning of April. Dealers said that despite the bond's tight pricing, with the coupon set at 5¼ per cent and price at 101⅛, the borrower's name should ensure a reasonable reception from Japanese investors. Nomura International held the bid price at a discount to issue price equivalent to total fees yesterday.

Australia will use part of the proceeds to refinance existing Euroyen and samurai bonds.

The D-Mark sector marked prices up by ¼ point in reaction to early improvements in the US Treasury market. A DM 500m two-tranche bond was launched for Lufthansa, the 80 per cent government-owned airline. One DM 250m tranche matures in 10 years' time, and the second in 20 years'. Coupons are respectively 6 and 6¼ per cent, and issue price par in both cases. Deutsche Bank led the deal.

Although both tranches were reasonably well-received, the 20-year tranche was less popular than the 10-year. Investors, nervous about interest rate rises, are reluctant to buy long-dated paper. Thus Wednesday's DM 400m 30-year bond for Collateralised Securities was bid at 97 as against a par issue price.

In the Swiss franc market two private placements were arranged. They were SFr 100m 4¼ per cent five-year for Small Business Finance Corporation of Japan and a SFr 100m 4¾ per cent seven-year bond for International Finance Corporation. Union Bank of Switzerland led the first deal and Credit Suisse the second.

Orion Royal Bank launched an Australian dollar 43m 13¼ per cent, seven-year bond for Tasmanian Public Finance Corporation.

Credit Suisse First Boston fixed the terms of last week's $300m Euromarket preference share offering for News Corporation Finance, a vehicle company for Australian newspaper and broadcasting company News Corporation. The dividend on the preference shares was set at $50 per annum. These are exchangeable for Reuters "B" shares at a premium of 9.77 per cent over today's close. The conversion price is £4.88. The exchange rate was fixed at $1.4949/sterling.

Strong growth by Nomura Securities

By Our Financial Staff

NOMURA SECURITIES, Japan's largest brokerage house, lifted consolidated net profits 55.2 per cent in the half-year to March to reach Y85.44bn ($506.2m).

The results include contributions from Nomura's overseas operations. Mr Yoshihisa Tabuchi, it president, says that income from bond transactions surpassed revenue from equity business in the period.

On turnover of Y409.78bn, up 45.1 per cent, pre-tax profits rose 54.2 per cent to Y193.66bn. Net earnings per share were Y49.52, compared with Y32.65.

Foreign banks' Euroyen queue

BY YOKO SHIBATA IN TOKYO

FOREIGN BANKS are rushing to issue Euroyen bonds to reap the benefits of the Japanese authorities' decision to allow flotation of such bonds by non-Japanese banks from next month.

A total of 12 issues, totalling Y200bn ($1.2bn), are poised to reap the prestige of being first into the new market, including Barclays Bank.

Mr Humphrey Norrington, deputy general manager, said: "We have every intention of being the first issuer in the market to take advantage of this chance." The Ministry of Finance will accept applicants from June 2, so technically the first bank-issued Euroyen will be launched on June 16th.

Of the 12 foreign banks, six are from the US—Citicorp, Morgan Guaranty, First Interstate, Manufacturers Hanover, Security Pacific and Bankers Trust. Others besides Barclays are Societe Generale, Banque Nationale de Paris, Swiss Bank Corporation, Union Bank of Switzerland and Commonwealth Bank of Australia.

The amount of each Euroyen bond will be betwen Y20bn and Y30bn. Besides these 12 banks, 10-15 more American and European banks have made inquiries, according to Japanese securities houses executives.

Foreign banks are not allowed to use the proceeds from the bonds in Japan, so as not to offend Japanese commercial banks—which have been probibited from raising long-term funds.

The foreign banks' interest in Euroyen bonds is strong because they regard this as a means of raising low cost funds by swapping the proceeds into floating rate dollar debt.

There is, however, some concern here that if a large new issue volume is crammed into June—easily surpassing the normal monthly Euroyen bond volume—ordinary corporate issuers could be crowded out of the market. However, the Ministry of finance is disinclined to work as "traffic controller," taking the view that the Euroyen market should be a free market.

Dealers resist change to meet local rules

By Our Euromarkets Staff

THE ASSOCIATION of International Bond Dealers (AIBD) signalled yesterday that, although it is falling in with British Government plans for securities market regulation, it is determined not to alter its rules as a general principle to conform with domestic regulations in individual countries.

Mr Rene Jaquet, AIBD vice chairman and a senior vice president of Les Fils Drefus in Basle, told the Association's annual conference that "the last thing we want to do is to drag the AIBD into local market regulations . . . we have rules and statutes and the best functioning clearing system that exists, so I do not see that we need to bend to local regulators."

His remarks, which won applause from the audience of over a thousand, underlined the unease of the AIBD's members. These operate the Eurobond market across national boundaries with a minimum of regulation and face the imposition of a comprehensive regulatory system designed to protect investors in UK securities markets.

The AIBD, which has hitherto been a trade association setting its own standards for market practice, is due to become an organ of the new UK self-regulatory system through its prospective recognition as an investment exchange.

Several speakers emphasised the difficulty of applying regulation, designed basically to protect small domestic investors, to markets which increasingly reach across borders and which are dominated by professional investors and traders.

But Sir Kenneth Berrill, chairman of the Securities and Investments Board (SIB), which is to be the umbrella policing body, assured the conference that the UK was trying to preserve this delicate balance and prevent the international markets from being driven offshore.

Mr Stanley Ross, a noted figure in the Eurobond market and a managing director of Deutsche Bank Capital Markets, complained that the AIBD was helping to bring regulation upon itself. "People are asking why we are being asked to forge our own chains."

Mr Ian Steers, chairman of the International Securities Regulatory Organisation, which has been acting as the Euromarkets voice on the UK legislation, said, however, it had been essential to face up to impending regulation and that several points had already been gained as a result of taking part in the discussions.

Syndicated credit by United Friendly

UNITED Friendly Insurance of the UK has launched its first syndicated credit in the form of a £50m, seven-year loan to fund mortgages issued to its endowment policy holders, writes Peter Montagnon, Euromarkets Correspondent.

Led by J. Henry Schroder Wagg the deal, which is subject to shareholder approval, will carry interest at a margin of ⅛ per cent over the London interbank offered rate for sterling deposits (Libor).

On top of that the borrower will absorb the reserve asset costs of participating banks. The credit is continually renewable.

Lazard in China venture with Citic

LAZARD PARIS, in co-operation with the other Lazard houses in London and New York, has established a joint venture with China International Trust and Investment Corporation (Citic), the Chinese state-owned investment bank, Our Financial Staff writes.

The new venture, to be called China Partners, will be 50 per cent owned each by Lazard Paris and Citic.

Based in Paris with offices also in Beijing and Hong Kong, China Partners is to promote business transactions between China and the outside world. It will focus particularly on joint ventures in China and abroad and the establishmant of trade relations both for Chinese and foreign companies, as well as assisting Chinese entities to borrow on international capital markets.

With Mr Wang Jun, general manager of Citic's business department as chairman, China Partners will be co-managed by Mr Zheng Zhenhua, Citic's representative in Europe, and Mr Alexandre Gros, deputy director at Lazard Freres in Paris. Other board members will comprise Mr Li Anmin, Mr Wu Jun, Mr Helie de Pourtales, Mr Jean-Pierre Saltiel and Mr Tanneguy le Gouvello.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.

Closing prices on May 22

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amoco Co. 9⅞ 16	200	[illegible]	[illegible]	[illegible]	[illegible]	9.66
Atlantic Richfield 10¼ 00	250	[illegible]	[illegible]	[illegible]	[illegible]	9.67
Australia Com. 11 95	200	[illegible]	[illegible]	[illegible]	[illegible]	8.56
Australia Com. 11¼ 00	100	[illegible]	[illegible]	[illegible]	[illegible]	9.31
BP Capital 9⅛ 94	200	97	[illegible]	[illegible]	[illegible]	9.25
BP Capital 11⅛ 92	150	[illegible]	[illegible]	[illegible]	[illegible]	9.42
Campbell Soup 10½ 95	100	109	109½	[illegible]	[illegible]	8.98
Canada 9 96	1000	[illegible]	105	[illegible]	−1½	8.26
Canada 11½ 90	500	[illegible]	[illegible]	[illegible]	[illegible]	8.02
Canadian Pac. 10⅛ 93	100	[illegible]	[illegible]	[illegible]	[illegible]	9.12
CEPME 10¼ 91	100	[illegible]	[illegible]	0	[illegible]	8.57
Citicorp 10 88	200	[illegible]	[illegible]	[illegible]	[illegible]	8.24
Citicorp 10⅛ 95	200	[illegible]	[illegible]	[illegible]	−1	9.07
Credit Lyonnais 9 91	200	[illegible]	[illegible]	0	[illegible]	8.29
Credit National 9⅛ 93	150	[illegible]	[illegible]	[illegible]	[illegible]	8.68
Denmark Kgdm. 11¼ 89	100	[illegible]	[illegible]	0	[illegible]	8.34
Denmark Kgdm. 11½ 90	100	[illegible]	[illegible]	0	[illegible]	8.44
Denmark Kgdm. 11½ 92	100	[illegible]	[illegible]	0	[illegible]	8.69
EDC 8½ 92	100	[illegible]	[illegible]	[illegible]	−1	8.26
EDF 10 95	225	[illegible]	[illegible]	0	[illegible]	8.79
EEC 8⅞ 92	250	102	102½	[illegible]	−1	8.81
EEC 9⅞ 90	100	104½	105	0	[illegible]	8.22
EIB 10¼ 94	200	[illegible]	[illegible]	[illegible]	[illegible]	8.78
EIB 12 95	200	[illegible]	[illegible]	0	[illegible]	8.75
Eli Lilly 10¼ 92	150	[illegible]	[illegible]	[illegible]	[illegible]	8.35
Equit. Lfe Rlty. 10½ 97	100	[illegible]	106	−1	[illegible]	9.92
Export Dev. Cpn. 10 90	100	106½	107	0	−1	7.96
Fed. Dep. Strs. 10⅛ 95	100	[illegible]	[illegible]	[illegible]	[illegible]	8.73
Ford Motor Cred. 10½ 91	150	106	106½	0	[illegible]	8.90
Ford Motor Cred. 11⅞ 90	100	107½	108	[illegible]	[illegible]	8.82
Gen. Elec. Cred. 10¼ 00	200	105	105½	[illegible]	[illegible]	9.55
GMAC 10¼ 89	200	[illegible]	[illegible]	0	[illegible]	8.26
GMAC 10¼ 92	150	[illegible]	[illegible]	[illegible]	−1	8.90
IADB 9⅞ 95	200	[illegible]	[illegible]	[illegible]	[illegible]	8.35
IADB 10½ 95	150	[illegible]	[illegible]	[illegible]	[illegible]	8.47
Kellogg Co. 10⅞ 90	100	[illegible]	[illegible]	[illegible]	0	8.79
Kellogg Co. 11¼ 92	200	[illegible]	[illegible]	[illegible]	[illegible]	9.11
Nippon Cred. Bk. 10⅞ 95	150	[illegible]	[illegible]	0	[illegible]	8.70
Pillsbury Co. 10¼ 95	100	[illegible]	[illegible]	[illegible]	[illegible]	9.17
Proct. & Gamb. 'A' 9⅞ 92	150	[illegible]	[illegible]	[illegible]	[illegible]	8.96
Pru Realty Secs. 12⅛ 95	546	[illegible]	[illegible]	0	[illegible]	9.46

INTERNATIONAL COMPANIES and FINANCE

Renault halts cash for robotics unit

BY PAUL BETTS IN PARIS

RENAULT, the troubled French state-owned car group, no longer plans to give financial support to its factory automation and robotics subsidiary which lost FFr 40m ($5.6m) last year.

Renault Automation was formed two years ago as part of the state car group's efforts to diversify in high technology. But the decision to stop supporting this subsidiary next year reflects Renault's strategy of refocusing operations on its core car and truck activities.

Renault is looking for industrial partners to take a stake in the automation business. There have already been a broad range of talks with foreign groups including General Motors-Fanuc, the GM robotics subsidiary, and Asea of Sweden.

A joint venture or association between Renault and another robotics group would probably be the first step in the gradual withdrawal from the business by the state car group. Renault has already sold or shed a number of assets as part of its general recovery effort.

Renault, however, would continue to support the robotics business this year with FFr 80m in aid matched by a similar amount from the French Government. Under a three-year plan, the subsidiary has been promised FFr 480m.

However, Renault has made it clear that with losses of FFr 10.9bn last year, it could not go on supporting the robotics industry next year. At the same time, it was unlikely that the government would extend any significant amount of financial aid.

Without a partner Renault Automation would be forced to cut drastically its research and development spending next year.

The business expects sales to rise to around FFr 1.4bn this year from FFr 1.23bn last year. The company said performance this year was likely to range between break-even and a loss of FFr 40m, similar to last year.

Although the subsidiary's sales rely heavily on the motor industry—Renault Automation supplies robots and systems to its parent and to the private French Peugeot group and is negotiating deals with Austin Rover and Ford UK—it also supplies automated equipment to other industrial sectors.

About 30 per cent of sales now involved a range of other sectors including aviation, defence, electronics, farm machinery, and telecommunications.

Benetton to offer financial services

By Alan Friedman in Milan

BENETTON, the Italian clothing company which earlier this month announced plans to open nearly 800 shops this year and to go public on the Milan Bourse, says it is also planning to diversify into the financial services.

Mr Luciano Benetton, the 51-year-old founder of the casual-wear group, said that "The future will include diversification in retailing, financial services in banking and elsewhere" in Italy and abroad.

Benetton's plan to develop financial services will call for the company to achieve "within two years a 50-50 mix in group turnover between industrial and financial revenues," according to Mr Alvo Palmeri, the Benetton managing director.

Benetton is planning to:

● Expand its factoring and leasing subsidiaries both in Italy and abroad.

● Form a financial services and venture capital company in Milan in the autumn which will engage in currency swops, syndicated loans, corporate finance and other investment banking activities.

Benetton already controls two leasing and factoring companies and says it has just received authorisation from the Ministry of Foreign Trade in Rome to operate in the factoring business outside of Italy. The company, with L880bn ($567m) of turnover, also disclosed that it has bought 10 per cent share holding in leasing companies in France and West Germany.

Lufthansa earnings slide after heavy depreciation

BY PETER BRUCE IN BONN

LUTHANSA, West Germany's state-owned airline, yesterday reported net income for 1985 of DM 63m, ($28m) a drop of DM 99m on 1984. The airline said it had deducted DM 83m in operating profit to pay for a special depreciation programme.

At the same time as it announced the purchase of six long-range Boeing 747-400 Jumbo jets for DM 1.8bn, Luthansa also gave notice that it intends flexing more muscle on North Atlantic routes this year.

Mr Heinz Ruhnau, the chairman, warned that his airline's share of the traffic between West Germany and North America had fallen to 39 per cent last year.

"We cannot accept this," he said. "If we don't want to leave the field one day then we have to defend our position in the market. This will demand a certain price. No-one will make money on the North Atlantic."

Lufthansa operated its passenger services at a loss last year. The company said its "revenue load factor" had slipped to 1 per cent below the break-even load factor of 64.8 per cent per average flight. The airline achieved an operating profit of DM 152m despite a DM 54m loss on flight operations.

In the first four months of this year, the revenue load factor had eased further to 62.8 per cent.

The airline nevertheless defended the decision to buy the six new 747s from Boeing as necessary for fleet renewal—the aircraft will begin to be delivered in 1989. The airline's supervisory board also approved an option on a further nine long-range Jumbos, which, if it is taken up, would bring the total cost of the Lufthansa order to about $2bn.

Lufthansa flew nearly 16m passengers last year, a rise of 3.8 per cent. Turnover rose 3 per cent to DM 10.68bn. Mr Ruhnau said it was especially difficult to forecast results for this year, but he assumed the airline would again make profits.

Fiat welcomes Ford purchase

BY JAMES BUXTON IN ROME

MR GIOVANNI AGNELLI, the chairman of Fiat, yesterday publicly welcomed the possibility of Ford of the US taking control of Alfa Romeo, the troubled Italian state owned car maker.

His statement is significant, since the entry of Ford into the Italian motor industry is seen as a threat to Fiat, Italy's largest car manufacturer. Last autumn talks on a possible merger between Ford of Europe and Fiat car division, broke down.

Mr Agnelli said that he welcomed a possible agreement between Alfa Romeo and Ford both as a taxpayer and as a motor manufacturer. As a taxpayer, he saw it as a solution to industrial problems that had cost the state vast sums of money.

As an industrialist he favoured the arrival in Italy, of an industrial group with great experience that was not dependent on state funds and did not have Italian party political affiliations.

Reaction in Italian political circles to the possibility of a deal with Ford has been non-committal for the most part.

Political reaction is crucial. Last summer inadequate political preparation by IRI led to the failure of a deal to sell the state foods subsidiary SME to the private sector.

● A senior executive of the Libyan Arab Foreign Investment Co. has been quoted in Rome as saying that his company was not hostile to the possibility of withdrawing its two representatives from the board of Fiat. Libya owns 15 per cent of Fiat.

Deutsche Bank makes strong start to 1986

By Our Financial Staff

DEUTSCHE BANK, the biggest West German bank, reports a strong rise in business volume over the early months of 1986 and as a result is confident of achieving another good year.

The bank said its buoyant trading levels had led to an increase in interest surplus this year, despite a certain amount of slippage in interest margins.

Private sector loan demand had been hesitant, but advances to the German corporate sector had risen strongly. Deutsche Bank gave no forecast for profits overall in 1986. It made a partial operating profit of DM 2.9bn ($1.29bn) for 1985.

The current strength of the German banking sector was also reflected yesterday in optimistic statements from DG Bank, the big co-operative bank.

DG Bank reports an increase in net profits for 1985 and says operating results have risen strongly at the start of 1986. Net profits for last year totalled DM 192.4m, against DM 117.7m in 1984.

Krupp Stahl more than doubles net profits

BY OUR BONN STAFF

KRUPP STAHL, the steel-making arm of West Germany's Fried. Krupp engineering group, more than doubled net profits last year from DM 23m in 1984 to DM 57m ($25.4m) despite a small 3.2 per cent increase in turnover to DM 6.2bn.

Although a decision to delay the transfer of DM 70m to a pension reserve undoubtedly helped profits, the performance is further proof of the strength being shown by German steel producers after three lean years.

Krupp in particular has pushed through a dramatic restructuring programme since 1980. About 13,700 jobs have been cut during the programme, which has cost DM 900m, half of which has been subsidised. The company said a further 2,500 jobs would be lost this year, some of which had been announced earlier, cutting the total workforce to just under 26,000.

Krupp Stahl, whose chief executive, Dr Alfons Gödde, resigned earlier this year, believes it is near to the end of this rationalisation process.

Dr Günter Fleckenstein, Krupp Stahl's finance director, said he expected profits to climb strongly again this year and that 1987 would probably see further improvement.

CGE plans to float cable subsidiary

By David Marsh in Paris

COMPAGNIE Generale d'Electricite, the nationalised French electronics and energy group, is putting at least 10 per cent of its cables subsidiary, Cables de Lyon, on the Paris bourse next month. The subsidiary is to be launched on the *second marche* or unlisted section of the bourse on June 6.

Terms have not yet been decided. Cables de Lyon, increased net profits 27 per cent to FFr 70.9m ($9.92m) last year on sales of FFr 3.5bn, a rise of 18 per cent.

Acquisitions lift Kaufhof sales

BY DAVID BROWN IN FRANKFURT

KAUFHOF, West Germany's second biggest retail group after Karstadt, reports that turnover in the first four months climbed 7.3 per cent to DM 2.86bn ($1.28bn) as a result of new acquisitions.

Although an unexpected upturn in spending on consumer goods has not yet made itself felt, earnings for the four months were described as significantly better than those a year earlier. Full year profits are expetced to show an improvement.

Releasing details of 1985 operations, Kaufhof said sales rose slightly from DM 8.42bn to DM 8.5bn in the midst of a broad restructuring. A decline in the revenue of the retail operations due to closures was offset by increases in tourist services and in mail-order.

The group plans to increase the 1985 payout from DM 6.50 per share to DM 7, after slightly raising net profit from DM 52.5m to DM 53.7m.

In the four months, the Kaufhof retail operations managed a small increase in overall turnover, while the group's low-price Kaufhalle retail subsidiary registered a continued weakening.

West German consumer demand has been buoyed by low inflation, tax cuts and fall in the oil price. Much of this rise has been focused on the services sector and specialised retail stores.

The Kaufhof group has of late revamped its product ranges and expanded into such areas as specialised supermarket chains (McFash and Saturn), shoe outlets (Reno) as well as catering, optometry and hairdressing, and these subsidiories now make up about 40 per cent of total turnover.

Liberty Life chief quits for Australian post

By Jim Jones in Johannesburg

MR MONTY HILKOWITZ has resigned as managing director and chief executive of Liberty Life, South Africa's third largest insurance group, and is to become chief executive officer of a new life assurance company to be formed in Australia by Westpac Banking Corporation.

Mr Donald Gordon, Liberty's founder and chairman, has assumed chief executive responsibilities and Mr Mark Winterton has been appointed deputy chief executive.

Mr Hilkowitz played a key role in Liberty's rapid growth of the past two decades. In recent years Mr Gordon has tended to reduce his involvement in Liberty's South African operations and has concentrated on developing its foreign interests.

Liberty has a large majority stake in Sun Life of the UK and hopes eventually to reach an operating agreement with the British company.

Trading houses show growth

BY YOKO SHIBATA IN TOKYO

THREE OF Japan's three major trading houses have reported modest growth in sales and profits in the year to March, hindered primarily by the yen's strength.

The surge in the yen's value cut sales of C. Itoh by Y630bn ($3.73bn) and Y600bn for Marubeni. Sumitomo dislodged Marubeni as the fourth largest general trading house in terms of sales. This was largely because the strong yen had a greater impact on Marubeni, which has a higher export ratio than Sumitomo.

A sharp increase was also shown in Sumitomo's revenues from gold transactions to Y1,150bn from Y600bn. Sumitomo's annual turnover reached Y14.225bn, against Marubeni's sales of Y13,916.5bn.

C. Itoh, the third largest, enjoyed strong sales of machinery. It wrote off losses of property subsidiaries, although these were more than offset by share sales from its portfolio and an improvement in its interest position.

Marubeni wrote off Y4.6bn relating to the bankrupt Sanko Steamship. It also set aside Y18.3bn provision for liquidating Marubeni Maritime, a Liberian shipping subsidiary.

Marubeni's exports of machinery and construction plants increased and trade in energy and metals between third countries expanded.

JAPANESE TRADING HOUSES

Parent company results (Ybn), year to March 1986

	Sales	Pre-tax profits	Net profits
C. Itoh	15,324.5 (+9%)	40.58 (+1%)	7.57 (+40%)
Sumitomo	14,225.6 (+8%)	47.61 (+5%)	22.13 (+ 6%)
Marubeni	13,916.5 (+3%)	41.18 (+9%)	5.4 (−34%)

KHD hit by weaker export markets

BY OUR BONN STAFF

KLOECKNER - HUMBOLDT - DEUTZ (KHD), the Cologne-based tractor, diesel engine and industrial plant maker, complaining of "catastrophic" and unforeseen turmoil in some of its traditional export markets, announces a 4.5 per cent fall in group net profits for 1985, to DM 57.4m ($25.6m). Turnover fell nearly DM 1.22bn to DM 3.74bn.

Mr Bodo Liebe, chairman, also warned that business in the first four months of this year had not been satisfactory. Parent company turnover, at DM 976m, is down 8 per cent on last year and incoming orders have fallen 23 per cent.

The 1985 accounts provide an incomplete picture of the group's performance, however, because KHD's two big purchases last year, the German diesel engine maker MWM and, in the US, the Allis Chalmers farm equipment business have not yet been consolidated. Both acquisitions made losses in 1985.

KHD did say that even with the inclusion of MWM, and, from June 1985, of the old Allis Chalmers operations, total unconsolidated turnover had also fallen, from DM 5.7bn to DM 5.4bn. Major cement plant contracts, which lifted sales last year, have not been repeated and there has also been increased weakness in export markets.

Mr Liebe estimated that economic difficulties in Greece and Australia, and political strife in South Africa, leading to the collapse of agricultural equipment markets in those countries, had cost KHD about DM 85m.

In addition, KHD's motor division, where turnover rose by 8 per cent to DM 1.8bn, experienced severe difficulties.

Despite a 24 per cent increase in turnover in medium-sized and large diesels, brought about mainly by the success of a new ships' diesel, Mr Liebe said tough rationalising would soon be carried out at MWM. Hundreds of personnel would be affected, he said.

The KHD board plans a maintained DM9 dividend for 1985. Last year the group was able to pay DM 9 and put DM 10m in reserves. The 1985 dividend is likely to cost the group its entire net profit.

Plessey recovers to £170m and is 'back on course'

WITH A final quarter gain of £15.6m The Plessey Company saw its profits for 1985-86 rise to £170.17m at the pre-tax level, an improvement of £6.5m over the previous year's depressed £163.66m.

Sir John Clark, the group's chairman and chief executive, said yesterday that Plessey was firmly back on course with the difficulties of the previous year now behind it.

He refused to comment on any aspect of GEC's £1.18bn bid for the group last December or the resultant reference to the Monopolies and Mergers Commission.

Sir John also declined to comment on questions about whether GEC had made any contact with Plessey on any form of business association since the Monopolies inquiry was launched.

He said the 1985-86 improvement was achieved, not through cutback or change of course, but through continued commitment to planned research and development as the best means of "*growing our present and future business.*"

The chairman added that Plessey was succeeding in world markets as a direct result of that investment and pointed out that defence electronics and semiconductor sales were two strong current examples of that success which demonstrated Plessey's capability to win international sales while providing continued profits growth for shareholders.

Sir John concluded: "We have the cash resources to develop and grow our business. Combine those cash resources with our strengthened management team and our lead in technology and you will see why I am so confident about Plessey's ability to continue to lead, to compete, and to prosper."

Operating profits for the past year (to March 28 1986) rose from £143.27m to a record £162.47m, representing an 11.1 (10.1) per cent margin on turnover of £1.46bn (£1.42bn).

Pre-tax profits, which were in line with City estimates, took in a share of associates totalling £1.82m (*£7.14m*) *and investment* income of £18.34m (£26.49m). Deductions included interest *amounting to £12.46m* (£13.24m).

Net profits came through at £100.37m (*£93.23m*) after taking account of a lower tax charge of £69.81m (£70.43m). There were also minority debits of £0.88m (£0.32m credits) and extraordinary provisions of £7.48m (£2.65m)—£4m of which was the cost of defending the bid by GEC.

Earnings emerged at 13.49p (12.7p) *pre-extraordinary* items and a final dividend of 2.962p (2.576p) raises the net total from 4.375p to 5.034p.

Telecommunications had a successful year in System X, completing 225 exchanges compared *with 16 last year. Stromberg* Carlson achieved a profit in the final quarter as planned—its losses for the year were reduced by some £14m to £6m. The division's operating profits for the year totalled £70.67m (£74.58m).

There was a significant increase in defence systems business with a consistent improvement in most divisions, both in the UK and overseas. Electronic systems and equipment profits surged from £24.1m to £40.27m.

Aerospace and engineering increased its contribution from £21.95m to £25.42m through continued efficiency improvements, which more then offset the effects of the dollar's decline.

Microelectronics and components profits rose by around £1m to £14.78m.

At year end the order book comprised: *telecommunications* £477.19m (£564.7m), electronic systems and equipment *£749.97m* (£867.69m), aerospace and engineering £90.45m (£119.88m), microelectronics and components £56.32m (£80.43m) and computer peripherals £6.94m (£6.7m). Inter-company content accounted for £25.06m (£34.28m).

The directors said the lower order book reflected exceptional circumstances. Many group orders come in big chunks and about £100m of the fall was due to the Ministry of Defence not placing an order for the third tranche of Ptarmigan, the field communications system, until September. Other factors were British Telecom moving from annual to quarterly orders for System ¼ and a *£40m impact* of currency fluctuations.

The balance sheet strengthened further during 1985-86 with a substantial increase in cash deposits and a reduction in borrowings. The group's net position of cash and deposits, less borrowings, was £192.4m at year-end, an increase of £80.1m.

Wardle tops Scapa's £27m bid for RFD

Wardle Storeys, the plastic sheeting company, yesterday increased its *contested* takeover bid for RFD Group to £29.2m—topping the rival £26.6m agreed offer unveiled earlier this week by Scapa Group, the industrial holding company.

Scapa, which supplies specialist technical products to industry, made clear in launching its bid that it was mainly interested in RFD's textiles division and would be discussing the possibility of a management buy-out for the other parts of the business: the manufacture of equipment for *safety* and *survival* and for the defence industry.

Wardle, regaining the initiative, said yesterday that its key interest was in the non-textile activities and it *would consider* the possible sale of the textile side to Scapa or other interested parties.

It would also consider a management buy-out of parts of the defence side of the business it did not want.

It called for the RFD board to recommend its offer since Wardle was now offering the higher price and since the board had recommended an offer "which clearly has no more industrial logic than the offer by Wardle."

The RFD board said yesterday it was considering Wardle's announcement which "indicates a surprising change of approach in their intentions regarding RFD's businesses." It would be discussing the position with both Wardle and Scapa as soon as possible.

Wardle is now offering 16 of its shares for every 25 RFD. On the basis of Wardle's closing price last night of 335p the paper offer is worth 214p a share.

The Scapa paper offer is worth 195p a share. Wardle is offering a cash alternative of 205p, against Scapa's 195p.

Wardle is advised by Hill Samuel, RFD by Kleinwort Benson and Scapa by J. Henry Schroder Wagg.

Amari cash call for expansion

BY RICHARD TOMKINS

Amari, the UK-based metals and plastics distributor which has recently made two acquisitions in the US, yesterday announced a rights issue aimed at raising £10.5m net to finance further expansion.

Three convertible preference shares of £1 will be offered at par for every eight ordinary shares held. *They will be convertible* between 1989 and 1998 at the rate of 62.5 ordinary for every 100 preference. The existing ordinary closed 2p down at 144p yesterday.

When Amari came to the market in July 1984 it was one of Britain's leading independent aluminium manufacturers, but it shed this side of its business with the sale of Century Aluminium in April last year.

Since then it has concentrated on its stockholding and merchanting activities, and it now claims to be the largest independent metals and plastics distributor in Europe.

In March this year it began expansion into the US with the acquisition of the Baltimore-based Ontario Metal Supply for about £3.7m. Five weeks later it acquired a 35 per cent stake in All American Metals, of Philadelphia and New Jersey, for about £920,000.

Yesterday, Amari announced that another US acquisition costing up to $1.5m (£1m) was at an advanced stage of negotiation. It said it planned to use the rights proceeds to finance further long-term expansion, particularly in the US.

In the short term the cash would reduce borrowings and strengthen its financial base following a three-year period of rapid growth.

The rights is underwritten by Hoare Govett, who are also the brokers.

David Churchill on the deal between Harris Queensway and GUS

The making of an heir apparent

SIR PHILIP HARRIS, chairman of Harris Queensway and one of the brightest retail entrepreneurs of the 1980s, yesterday emerged from the relative obscurity of the past two years to appear as heir apparent to the Great Universal Stores empire.

GUS and Harris Queensway yesterday concluded the long-expected deal which gives Harris control over GUS's 350 Times Furnishing stores and 175 Home Charm do-it-yourself outlets.

In return GUS is taking a 23 per cent stake in Harris Queensway but, more importantly, is taking on board the entrepreneurial flair of Sir Philip who joins GUS as a non-executive director.

GUS now acknowledges that its *rather sleepy image as far* as its High Street operations are concerned—its main retail interest lies in mail order—needs some pepping up. Mr Harold Bowman, assistant managing director, admitted yesterday that Sir Philip "would bring entrepreneurial flair and knowledge of furniture retailing to the *Times* and *Home Charm* businesses which we lack at present."

Such a glowing recommendation from the normally low-profile GUS was yesterday interpreted by the City as a clear sign that GUS was at long last accepting the need for new blood to help it move into the 1990s.

"Since GUS is totally lacking in entrepreneurial flair, it is clear that Sir Philip has all the makings of an heir apparent for GUS," suggests Mr John Richards, a senior retail analyst with stockbrokers Wood Mackenzie.

Great Universal Stores is one of the *largest* and most *secretive* among Britain's top 20 companies. The company has enjoyed an unbroken record of profits increase for 36 years but its share price performance has been rather dull in a sector which has been one of the most dynamic of all during the 1980s. In the first *half* of the current financial year, a 12 per cent rise in pre-tax profits to £102.7m was well *below* City expectations.

Sir Isaac Wolfson, co-chairman of Great Universal

Sir Philip Harris, chairman of Harris Queensway

GUS has for generations been controlled by the Wolfson family through personal holdings, family trusts, and the Wolfson foundation. "The two classes of shares allow them to exercise control of 51.5 per cent of the votes from only 1.1 per cent of the share capital," explains Mr Richard Perks, a retail analyst with stockbrokers Laurie, Milbank.

Sir Isaac Wolfson, 88, and his son Lord Wolfson, 59, are the co-chairmen of the group which has a price tag of about £2bn in the market, with activities dominated by its mail order division and associated property and financial activities, especially its consumer finance and credit information companies.

Last December signs of change at GUS—described by one analyst as "a slight breeze rather than a wind of change"—emerged with the appointment of two directors in the 50s which slightly lowered the average age of the board, believed to be at least 60.

Apart from its *successful mail* order operations—which account for the bulk of profits and turnover—GUS has dabbled with High Street retailing both without any real conviction. It recently sold its 66-strong chain of Thoms discount stores to Harris in exchange for a stake in Harris' Poundstretcher business. *Yesterday GUS sold this* 20 per cent stake back to Harris.

GUS also recently sold half the trading assets of the 263 Paige womenswear shops to Combined English Stores and is refurbishing its 270 Lennards shoe shops.

More successful, at least in customer awareness, have been the Burberry and Scotch House retail operations although these may suffer from the shortfall of US tourists visiting Britain this summer.

In theory and in practice Sir Philip Harris offers GUS a viable vehicle for injecting new flair into its retail operations and perhaps help to stave off a possible bid from a predator keen to break up the GUS empire.

Sir Philip—he was knighted in the queen's birthday honours last year—is a classic rags to riches story typical of the retail world. At the age of 15 (he is now 44) he inherited three small south London carpet shops from his father and, faced with the choice of selling up or running the shops himself, he decided to have a go.

Until he was 21 he needed a guarantor every time he clinched a deal—but that did not stop him developing his retailing formula along the 'pile it high, sell it cheap' lines which has been the cornerstone of so many other fast-growing retail operations.

His carpet store operation grew rapidly, aided by improved living standards and the growth in home ownership in the 1960s and 1970s as well as a lot of luck. But he was determined to expand at every opportunity, ploughing profits back into taking over small shop chains and, in 1977, diversifying into furniture with his most ambitious move up to that time — a £8m takeover of the Queensway discount furniture operation.

Despite being considered a typical workaholic by those who know him, Sir Philip has found time to indulge his favourite hobby — showjumping — and owns a string of showjumpers.

In the early 1980s he was tipped to take over a number of companies — Woolworth and Debenhams — but in 1984 formed a link with Debenhams to sell carpets and furniture through its department stores.

Since then, Sir Philip has adopted an unusually low profile — apart from incessant Press speculation about potential takeover deals — as he has sought to consolidate and modernise some of his existing operations.

That period of his career, however, now looks to be over with yesterday's deal with GUS and a £72m rights issue earlier this month to finance new acquisitions. This was announced at the same time as a 35 per cent increase in pre-tax profits to £36.9m for the 13 months to January this year.

The GUS deal itself will take some digesting since it creates the largest retail group of its kind in the UK with 8.5m square feet of selling space in edge-of-town and high street locations. The new group will sell a diversified range of goods, including furniture, carpets, electrical products and household merchandise.

The question now, for Sir Philip and the Wolfson family is just how close their future relationship should become. The possibility for a merger of the two companies with Sir Philip eventually taking over at the top now looks a distinct possibility and the threat of an unwanted takeover attempt for GUS could, in the City's view, hasten such a marriage along.

See Lex

Emess enraged by Warburg's disclosures

By Lionel Barber

S. G. Warburg, merchant bank advisers to Rotaflex, the commercial lighting company facing a £30m bid from Emess Lighting, yesterday enraged Emess by publishing sensitive commercial information about the bidder's recent *trading* and future profit projections.

Warburg obtained information from internal working papers inadvertently left on public display by Emess's merchant bank advisers, County Bank. The Takeover Panel apparently regarded the information as confidential, but after two court hearings Warburg was given the go-ahead to publish.

According to the documents, Emess is budgeting a profit before tax of £4.32m for 1986 and £4.58m for 1987. This represents growth of only six per cent between 1986 and 1987. In the case of 1986 this ignores a shortfall of some 15 per cent in profit before tax against budget, on trading for the first quarter, Warburg said in a letter to Rotaflex shareholders.

Mr Michael Meyer, chairman of Emess, which has built a reputation as a *fast-growing* acquisitive company, accused Warburg of gross distortion and of unacceptable behaviour in publishing the information.

Mr Meyer said: "The figures quoted are only in the context of working capital forecasts for cash flow purposes. They were drawn up in November last year and we rebudget four times a year."

RHP profit rise fails to please

RHP Group, Essex-based mechanical and electrical engineer, reported pre-tax profits up by 47 per cent on turnover 35 per cent higher in the first six months of 1986. However the market had been expecting more and the shares were *marked down* to close at 174p down 4p on the day.

Turnover, boosted by a full contribution from Muirhead, increased from £57.59m to £77.74m with pre-tax profits ahead at £6.29m against £4.28m. Markets had been expecting about £7m.

The group also announced the sale of Muirhead Data Communications, the electronic and facsimile communications equipment company which it acquired when it bought Muirhead in June last year. It is being bought by the Crosfield Electronics offshoot of De La Rue for £4.2m cash.

RHP says the Muirhead Data products are compatible with those of Crosfield, which has a much wider interest in the market. At October 4, 1985, Muirhead Data had net assets of about £2.5m. The price also includes the repayment of intra-group indebtedness and will be used to reduce RHP borrowings.

Earnings per share came out at 8p, against 7.2p, and the group is paying an interim dividend of 1.9p, up from the comparable 1.65p. Last year there was a total payment of 4.25p from pre-tax profits of £11.07m.

Trading profit was £7.31m (£4.81m) but the interest charge was almost doubled at £1.02m (£542,000). Tax took £1.31m (£951,000).

● comment

RHP's 47 per cent profits rise seems deserving of something a little kinder than a 4p slip to 174p but some estimates had been running as high as £7m and [illegible] nothing new when RHP makes an announcement. The bearings division has done well to squeeze a 36 per cent profit improvement from a 4 per cent increase in sales, clearly reflecting the gradual shift away from highly competitive commodity items towards precision and aerospace. Electricals, meantime, has seen the benefit of a turnround into profit by Muirhead and a small initial contribution from Graviner. For the full year profits could come out at close to £17m dropping the prospective p/e to 9 which looks on the cheap side. With borrowings expected to drop to around £12m before year end RHP will be searching for more acquisitions.

Pritchard US 'could be boosted'

The Hawley Group stresses in its formal offer document for Pritchard Services that its own US management team could improve substantially the results of Pritchard's North American subsidiaries.

Hawley increased earnings before tax in the US from £15m to £19.7m in 1985 at a time when "there was a fundamental problem in North America" for Pritchard which has 62 per cent of its turnover there.

The company stressed that except in exceptional circumstances the offer will be open only for 21 days until June 11. It has increased its stake in Pritchard from 28.2 per cent to 29.9 per cent.

Hanson sells SCM offshoot

Hanson Trust is selling Sylvachem, a speciality chemical manufacturer acquired with its takeover earlier this year of SCM, the US group, to International Paper for about $30m (£20m), about net book value. In the year to end-June 1985, Sylvachem had sales of $45.3m and operating profits of about $3.0m.

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UK COMPANY NEWS

Dixons plans sale of Comet to Granada

BY DAVID GOODHART

Dixons Group has agreed to to sell Comet, Woolworth's out-of-town electrical retailing business, to Granada in the event of its £1.6bn bid for Woolworth succeeding.

The provisional deal has been prompted by Dixons' wish to minimise the likelihood of a reference to the Monopolies and Mergers Commission. It atted wheo first making the bid that it did not regard Comet as part of its plan to revitalise Woolworth.

The price, though impossible to calculate precisely, is likely to be between £120m and 130m. Granada would pay £70m in cash —funded by a vendor placing of 29m new ordinary shares—and the balance in non-interest bearing loan notes redeemable after four years for a maximum of £75m or, at Granada's discretion, for £55m during the first two years.

Woolworth acquired Comet for £178m in May 1984 and yesterday described the provisional deal as being without commercial sense.

Mr Geoff Mulcahy, chief executive of Woolworth, said: "The price that Dixons have negotiated is ludicrously low. This can only be explained by the fact that this is a forced sale, and that Dixons do not understand the out-of-town retail market and its potential.

"They are also selling someone else's company about which they have not got all the required information."

Dixons would, however, take £25m in dividend out of Comet before selling it to Granada and argues that since Woolworth acquired Comet several non-core activities have been sold or closed and its DIY interests have been integrated with the B&Q operations.

Granada has a consultancy agreement with Circuit City Stores Inc which would advise it on the application of US retailing practices to Comet if it did take control. The company also stressed that as the £5.8bn electrical retailing market has been growing at about 16 per cent annually for the last five years it had been developing plans to enter the market for some time.

Mr Alex Bernstein, group chairman of Granada, said: "This represents an exciting opportunity for us to become the leading out-of-town electrical retailer."

Comet is the largest out-of-town electrical retailer operating more than 60 per cent of such outlets in the UK. It runs 118 out-of-town stores and 62 smaller stores and is adding almost 20 per cent to its trading area. Pre-tax profits fell from £14.9m in 1985 to £13.7 in 1986, but some brokers estimate an improvement to £16m for this year.

Dixons, which is widely expected to increase its offer for Woolworth, said Comet was a fundamentally sound business but under Woolworth's custodianship its performance had deteriorated.

Mr Mulcahy said: "It would be a travesty if this deal went through. It is clearly against the interests of our shareholders. It also means considerable and unnecessary management team of Comet itself."

Dixons closed 6p up at 346p and Woolworth rose 35p to close at 855p.

Yesterday was the first closing day of the Dixons offer and the company announced it had received acceptances from holders of 0.15 per cent of the Woolworths share capital. The bid has been extended until 3 pm on June 5.

See Lex

Cambrian & General asset rise

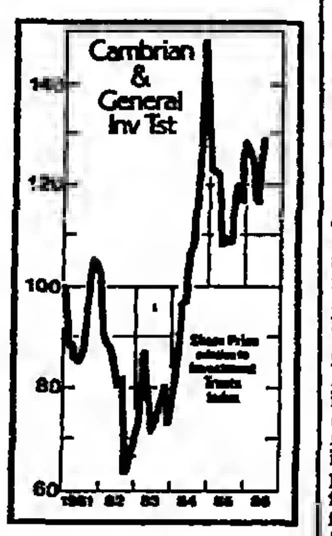
Cambrian & General Securities, the investment trust which is the UK vehicle for Mr Ivan Boesky's share dealings, saw half-year net assets value per 25p share improve from 120.97p to 172.84p, and from 152.04p to 277.21p per 75p capital share.

The results for the six months to March 31 1986, announced yesterday, also disclose that the value of the company's investments, including Farnsworth and Hastings at net asset value, came to £233.5m.

Earnings per share at the half-way stage came to 0.093p against 0.271p, with net profits for the period falling £81,000 to £45,000.

● comment

The arbitrageur is a far from fashionable phenomenon these days. Yet Ivan Boesky, arbitrageur par excellence, has confounded the critics with a half year in which Cambrian outperformed the investment trust sector, on a year by year basis, almost sevenfold. Plotting the pattern of Cambrian's investment is notoriously difficult, given Mr Boesky's propensity for assembling shareholdings just a fraction of a percentage point below the level at which he needs to disclose his stake to the New York Stock Exchange. Nonetheless Lord Hanson's woop on SCM and Philip Morris's on General Foods are thought to have been particularly profitable. Cambrian has mooted its intention to amble across the Atlantic and make the most of merger-mania in this country. Despite dark rumours of strategic Boesky stakes in Distillers and Westland, the UK portfolio is still relatively small. Predicting Cambrian's performance for the full year would be a futile exercise, particularly as the market in its shares is so small. The capital shares rose by 7p to 133p yesterday, an immodest rise given that Cambrian sports an average discount for the sector as an entirely unaverage stock.



British Borneo advances

British-Borneo Petroleum Syndicate reported taxable profits of £1.91m for the year to March 31 1986, an increase of 7 per cent on the previous year's £1.79m.

Earnings per 10p share came out at 27.5p (25.7p) and the directors of this investment holding and dealing company are recommending an increased final payment of 14p, against 12.5p, making a total for the year of 20p (17.5p).

Profits from dealing activities fell slightly from £665,268 to £657,962 with short-term interest received and other income down from £174,853 to £117,897. There was also a fall in income from US oil and gas producing properties, down from £99,714 to £52,076. Income from investments rose to £1.43m (£1.25m).

Coca Cola plans joint venture with Cadbury

By Lisa Wood

Coca Cola, the world's largest drinks company, is understood to be planning a joint venture with Cadbury Schweppes, the UK-based confectionery and drinks company, as part of Cadbury's proposed acquisition of the Canada Dry and Sunkist soft drinks businesses of RJR Nabisco, the US food and drinks concern.

Under the proposed deal Coca Cola would contribute a sizeable amount of the purchase price of the two businesses which were bought separately by RJR Nabisco in 1984 for about £230m.

However, Cadbury Schweppes will put up the bulk of the purchase price in order to acquire the brand names, while Coca Cola will acquire the North American bottling facilities.

If Coca Cola is to participate in the deal it will reduce the stress on Cadbury's balance sheet. Cadbury is currently geared at around 25 per cent.

This would be the second joint venture by Coca Cola and Cadbury Schweppes in the last year. In December, Cadbury Schweppes announced it had entered into an agreement in principle with Coca Cola for the two to form a joint company to handle both of their soft drink brands in Britain.

Mr Robert Brand, of Wood Mackenzie, the Edinburgh-based stockbrokers, said: "We believe Coca Cola is involved in this deal. The result would be that the gearing of Cadbury Schweppes would not be as great as first believed."

Mr Hugh Collum, group financial director of Cadbury Schweppes, said he was unable to comment. A statement would be made in due course.

COMPANY NEWS IN BRIEF

GARTMORE AMERICAN SECURITIES, investment trust, increased its net asset value per 25p share from 147p to 178p in the year to March 31 1986. Stated earnings per share were down, however, from 2.21p to 2.18p, and the final dividend was halved from 1.4p to 0.7p for a lower total of 1.3p compared with 2p.

Pre-tax revenue was little changed at £603,500 against £606,000. After all charges, including tax of £213,000 (£210,000), net revenue for the year was £5,000 lower at £391,000.

BRITISH Syphon Industries has recived acceptances totalling 13.37m ordinary and 1.19m preference (71.2 per cent and 57.7 per cent respectively) regarding its offer for Marshall's Universal. With shares already held British Syphon now holds, or has received acceptances, totalling 84.8 per cent of the ordinary and 57.7 per cent of the preference. The cash alternative (now closed) has been accepted by 31.9 per cent of the ordinary and by 51.4 per cent of the preference. The share offer remains open — the next closing date being June 3.

WISTECH, the waste disposal and industrial services group, has achieved higher taxable profits of £85,500, against £12,500, in its seasonably unfavourable first half to end-March 1986. Turnover rose from £1.93m to £3.16m.

There is no dividend. The company's shares are traded in the market made by UTC.

BURGESS PRODUCTS has received irrevocable acceptances totalling 65.5 per cent of the capital in respect of its offer for Coin Industries. Burgess forecasts profits before tax for 53 weeks ending August 1 1986 substantially ahead of previous £1.1m, and expects to lift final dividend by 25 per cent to 2p net. Coin is looking for profits of not less than £1.5m for year ending June 30 1986 (£792,000).

DALGETY has purchased the flour milling interests of Wilson King (Holdings), which trades mainly from Liverpool, but also from Thirsk's mill in Nafferton, North Humberside. Through its Spillers Milling subsidiary Dalgety already has a flour mill in the North West, and the two activities will be merged into Spillers Wilson King.

HOUSE PROPERTY Company of London, engaged in property investment, management and development, reports taxable profits of £42,000 (£34,000) for 1985. Earnings per 50p share were 4.22p (1.16p). Final dividend is 6p for unchanged 9p total. Despite poor result, directors are confident of improving profits for 1986.

Leeds Group (textiles, oil and gas) reports first half to March 31 1986 profit up from £876,000 to £1.06m on turnover £7m (£7.11m. Earnings 9p (6.8p) and interim dividend 2.25p (equivalent 1.87p). Good results reflect success in adapting to changing conditions and new areas of demand. Output has increased in volume on lower value lines.

EBC Group: The 13.9 per cent held by Mr M. P. Kent has been placed with institutional clients of the company's London brokers, Savory Milln and Messrs. Stock Beech and Co. of Bristol.

UK COMPANY NEWS

Young Brewery climbs to £3.4m

TRADING profits in the year ended March 31 1986 at Young and Co's Brewery have risen from £3m to £3.28m, on a turnover ahead by £3.68m to £39.25m.

And taking in £72,000 (£21,000) gains on sale of properties lifts the pre-tax to £3.35m, a rise of £329,000 over 1984-85.

After tax £1.37m (£1.34m) earnings are shown at 15.11p (12.69p), and a final dividend of 4p raises the total by 1p to 7.3p net.

Mr John Young, the chairman, says the near 18 per cent rise in net profit was achieved despite ploughing more than £1m into repairing and renovating public houses. Benefits should begin to show in the next 12 months

He says beer sales have declined by more than 4 per cent in the past year, but customers now have a wider choice. This includes bringing over Beamish Stout from Cork, which now accounts for a third of all stout sales in the group's houses.

At the same time lager is holding its own and commands 25 per cent of output.

OXFORD INSTRUMENTS has acquired **Analytical Marketing** of Massachusetts, US. AMI is the North American distributor for Oxford analytical instruments products.

FIH forges ahead with £1m profit increase

AN INCREASE of £1m to £7.5m in pre-tax profits is announced by Ferguson Industrial Holdings for the year ended February 28 1986.

But this hides the continuing strength gained in the printing, packaging and plastics division, where the trading profit advanced by £2.5m to £8.05m. The main offset was a drop from £1.71m to £814,000 in building supplies, which was sold earlier this year to Bowater Industries for some £15m.

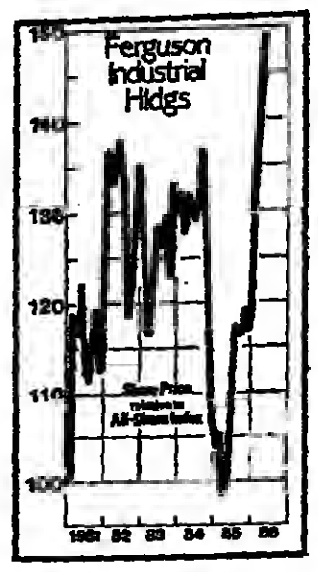
Construction again incurred a loss, this time £219,000 (£250,000), while other activities produced a profit of £658,000 (£594,000). Following the disposal of building supplies, the directors are examining companies not involved in printing, packaging and plastics to ensure that the return on capital employed makes a worthwhile contribution.

Mr Denis Vernon, chairman and chief executive, says the printing, etc profit included £886,000 from Atlas House and Progress Pac, acquired during the year.

This growth has enabled the division to continue its capital expenditure programme without a diminution in the high return on capital employed achieved in recent years. Substantial expenditure has been approved to continue the development.

In view of the satisfactory group result, the final dividend is lifted to 5.15p for a net total of 7.9p, compared with 7.15p.

Mr Vernon says the new trading year has started well. With an ungeared balance sheet, FIH has intensified its search for suitable acquisitions.



Proceeds of the disposal were mostly received before the year end with the balance due when the completion accounts are finalised.

Turnover in 1985-86 came to £150.59m (£141.5m) with printing, packaging and plastics accounting for £53.69m (£41.24m), construction £18.88m (£20.71m) and other activities £9.66m (£9.38m). Building supplies was £68.36m (£70.18m).

Plastics is included as a title in the main division as manufacture has grown out of involvement in printing and packaging for the garment industry. Mr Vernon says it will in future progress separately as new markets are developed in the food, beverage and pharmaceutical industries.

After tax £3.05m (£2.6m) the net profit is £4.46m (£3.85m) for earnings of 16.9p (14.6p) per share. Profit on disposal of building supplies is shown as an extraordinary item—£2.46m before tax £871,000.

● comment

"Industrial Holdings" has become something of a misnomer for Ferguson in the last year or so. The 1985-6 financial year was marked by the company's retreat from building materials and frenetic acquisition activity within the plastics, printing and packaging sphere. In 1986-7 the company will continue this trend. The board is actively scouting about for buyers for the construction division and for acquisition opportunities in plastics, printing and packaging market niches. Diversification will concentrate on the consumer goods sector—where Ferguson hopes to benefit from the boom in retail expenditure — but will also accommodate industrial catering and medical packaging. The City expects profits of £9m for the 1986-7 financial year for a p/e of 11.5. The withdrawal from building materials produced a rapid rise in the Ferguson share price and judging by the market's reaction yesterday — when the price rose by 7p to 257p — the retreat from construction could catalyse another.

Castings profits advance to £1.5m

Castings, the West Midlands-based malleable ironfounder, has increased full year taxable profits from £1.19m to £1.55m on turnover ahead by £2.72m to £13.22m.

The final dividend is being raised from an adjusted 1.83p to 2.2p, making a total of 3p (2.5p). Earnings per share were up from 9.92p to 10.69p, after tax of £452,380 (£521,494).

At the half-year pre-tax profits totalled £505,000 (£419,000) on turnover of £6.15m (£4.62m).

Profits for the year to end-March 1986 included results from W. H. Booth & Co. acquired last year, and reflected efforts to maintain efficient and economic production in the face of pressure on margins and competition from abroad, say the directors.

Production facilities at Brownhills have again been increased and those of the subsidiaries are being improved. Overall, Castings considers the results satisfactory

Witan growth

Witan Investment Company is lifting its dividend from 2.75p to 3.25p for the year ended April 30 1986. The final is 1.75p. Also proposed is a 1-for-1 scrip issue. At the end of April the net asset value had risen to 265.3p (198.2p) per share.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
Albion ...int.	0.8	July 9	0.6	—	1.3
Brit-Borneo Petrol	14	July 18	12.5	20	17.5
Cambrian and Gen int.	0.25	July 5	0.25	—	1.1
Castings	2.2	—	1.83	3	2.5
Deritend	5.6	July 19	4.1	8	6.3
Ferguson Ind	5.15	—	4.65	7.8	7.15
Greenall Whitley int.	2.3	July 11	2.07	—	4.93
Hambros Inv	3.3	Aug 8	3.1	4.5	4.2
Jermyn Inv	2	Aug 4	1.63	2	1.63
McInerney Propsl	4	—	4	5	5
Plessey	2.96	Nov 3	2.58	5.08	4.38
RHP Group ...int.	1.91	July 10	1.65	—	4.25
"The Times" Veneer	0.5	Aug 29	0.5	0.5	0.5
Witan Inv	1.75	July 24	1.45	3.25	2.75
Young Brewery	4	—	3.3	7.3	6.3

Dividends shown in pence per share except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Irish currency throughout.

UK COMPANY NEWS

Greenall Whitley helped by exceptional gain

LITTLE CHANGE in the trading profit of continuing business has been experienced by the brewery and hotel group Greenall Whitley in the half year ended March 28 1986. But at the pre-tax level the profit is up £1.73m to £13.17m.

The pre-tax figure takes in surplus on disposal of properties £451,900 (£884,000) and an exceptional credit of £1.04m being the excess of property insurance proceeds over the attributable cost of buildings damaged. Last year there was £754,000 profit from Arrowsmith, which was sold in September 1985.

Turnover rose to £176.58m (£163.53m) and the operating profit to £18.25m (£15.85m), with beer business accounting for £13.19m (£10.7m), UK hotels £3.73m (£3.1m), US hotels loss £906,000 (£180,000), and other businesses £3.13m (2.83m), less group charges £900,000 (£599,000).

Mr Christopher Hatton, chairman, says the brewing businesses performed very well, despite the poor winter. The recent merger with Davenports, whose figures are not included, has given the group a stronger presence in the Midlands.

Mr Hatton says business in the first half should be seen in the context of three major factors.

First, the business is becoming increasingly seasonal with more trading profit being earned in the second half; but despite this, the volume of borrowings tend to be higher in the first.

Second, borrowing costs have risen because of higher interest rates and heavy investment, particularly in the hotels division. Interest costs were up £2m to £6.76m, but the reducing trend in rates is likely to help.

Third, higher losses were incurred at The Lord Cromwell, in Connecticut, where there were further delays in reopening the hotel after the fire last year. The period between last summer and spring 1986 was not covered by loss of profits insurance.

After tax of £3.74m (£3.7m) the net profit for the six months comes to £9.43m (£7.74m), for earnings of 7.72p (6.35p) per limited voting share and 1.54p (1.27p) per A share. The interim dividend on the former shares is raised to 2.3p (2.07p), and on the A to 0.46p (0.41p).

● comment

Greenall Whitley's figures were once again peppered with exceptional and one-off items yesterday, but the market took one look at the 3 per cent increase in trading profits, compared it with Whitbread's 18 per cent and Bass's 23 per cent pre-tax gains of the day before, and knocked 7p off the shares to leave them at 173p. Greenall's beer businesses were in fact well up to the performance of its bigger brothers: volume was static but buoyant retailing (not least the effect of the £1 coin on fruit machine takings) produced a 23 per cent advance for the division's operating profits. Ironically it was the hotel activities, a major area of expansion, that pulled the figures down: uninsured losses drove the US contribution well into the red and heavy refurbishment costs in the UK helped push the interest charge up by £2m. Greenall is not a London hotelier and seems unlikely to be an immediate casualty of the tourism downturn, so the second half should see an improved performance from the hotel activities. This combined with a frothy performance from the beer businesses and a first-time contribution from Davenports should produce £36m pre-tax for a lowly p/e of 9, but Greenall's bid-proof status seems likely to leave it as the sector's least loved stock until better figures show through.

Suter profits ahead of expectations

MR DAVID ABELL, the chairman of Suter, told shareholders at the annual meeting yesterday that there was substantial scope for improvement through rationalisation of the businesses within UKO International, which Suter acquired in April. Responsibility for the UKO operations has been divided between three of the four Suter operating groups.

The overall performance of its other businesses continued to be encouraging, he said, with profits running ahead of expectations at the turn of the year.

He also said that there would be a one-for-five scrip issue and that the level of dividends would be maintained on the enlarged capital.

Other annual meetings held yesterday included:

WEIR GROUP — Its shareholders funds will benefit by about £3.5m from the sale of its 28 per cent stake in Yarrow to CAP, the computer group. This was stated by the chairman, Lord Weir, who also said that the year had started with satisfactory results for the first quarter to end-March.

Lord Weir added that although satisfied with the course of business generally, the present economic and financial climate in the Middle East, and its potential effect on payments and progress of contracts there, gave some cause for concern.

WM MORRISON Supermarkets —The chairman said that sales for the first quarter were over 15 per cent ahead, and he was confident that this strong trading position could be maintained throughout the rest of the year. He added that with the company's large store opening programme over the next 18 months, capital expenditure would be about £35m, which would obviously increase borrowings.

ENTERPRISE OIL—*Cash flow* and profits for 1985 would be considerably lower than in 1985, Mr William Bell, the chairman, told shareholders, as the effect of lower oil prices on all aspects of its business was direct and *immediate*.

POLYMARK International—Mr Len Weaver, chairman, said that the group's return to profitability during 1985 for the first time in three years had been more than maintained during the first quarter. However, he told shareholders that while the evidence of the continuing recovery was encouraging, it would be inappropriate to resume dividend payments at present and proposed to defer payment of the dividend on the "A" shares due on June 30.

Barclays Italy dismissals

Barclays Bank in Italy last night said it would suspend temporarily the dismissal of 172 Milan based employees pending *negotiations* between the Bank and Italian trade unions.

Barclays announced the staff cuts 10 days ago following heavy losses for last year which wiped out the Italian subsidiaries capital base.

The drastic reduction in the Milan branch staff amounts to a halving of Milan employees. It has been deemed necessary by Barclays as part of a programme of reducing overheads and trying to reposition the banks Italian business.

It was clear last night, however, that the temporary suspension of the Milan dismissals is little more than a cosmetic device designed to keep the appearances of harmony during very difficult negotiations.

The *suspension* of the *dismissals* will be valid only until the next meeting between Barclays and the unions, scheduled for June 11. It is possible that when the negotiating process is completed the total number of Barclays employees made redundant in Milan will be slightly lower than the number of 152 already announced.

Monks ahead of forecast

MORE than doubled pre-tax profits, of £1.51m against £721,000, have been achieved by **Monks & Crane**, in the year to March 31 1986, which well exceeds the £1.4m forecast when the company joined the USM in December 1985.

In a market where trading was reported as firm rather than buoyant, the group, a national distributor of industrial consumables, engineers' tools, safety equipment and protective clothing, improved sales by 25 per cent from £20.2m to £25.32m.

As forecast, the directors are recommending a 1.6p dividend for the year to be paid from earnings shown 4.8p ahead at 8p per 10p share.

Mr Albert Spacie, the chairman, tells shareholders that the company's performance will improve further with the introduction in June of a catalogue of 40,000 stocked products, which with an increased sales force, will expand the customer base of 12,000 accounts in every area.

Looking ahead, he says the directors are confident that future prospects are excellent. With the two successful acquisitions already absorbed and profitable he says that further similar opportunities are being actively pursued. The result this time includes all the reorganisation costs following the acquisition of Richard Lloyd Distribution in October.

After tax of £495,000 (£313,000), attributable profits emerged up from £408,000 to £1.02m.

Jackson advances to £1.3m

Jackson Group, engaged in construction and industrial services, raised its profits for the 1985 year from £1.24m to a record £1.32m pre-tax from a turnover £22.52m ahead at £33.59m.

The directors are looking for further progress this year. The order book of the roadworks' subsidiary indicates a satisfactory level of activity for the foreseeable future.

Tax for 1985 took £552,000 (£462,000) and left earnings marginally lower at 14.7p (14.9p). A final dividend of 3.1p lifts the net total from 3.65p to 4.3p.

There were extraordinary debits of £216,000 (nil).

During the year the group acquired properties for development at a cost of £1.25m and disposed of properties for £980,000, which realised £183,000 gross.

The group's shares are traded on the market made by Granville & Company.

UK COMPANY NEWS

Micro Focus unable to dent loss in second half

Micro Focus Group, the computer software producer, only broke even in the second half of 1985-86, following the £2.8m loss at halfway. The net loss for the year was £2.03m, after a tax credit of £761,000 for a loss per share of 16.8p against earnings of 0.1p.

The first half deficit led the directors to initiate cost reductions in the main parts of the business, and Mr Brian Reynolds, the chairman, says that these paid off in the second half which saw operating costs cut by 18 per cent. This however, was offset by increased interest charges and a higher provision for doubtful debt of £1.25m (£701,000). For the previous 60 weeks the group made £721,000 profit.

Mr Reynolds says that cash flow improved dramatically with outflow for the second half reduced from £5.2m to £0.5m. In the closing months of the year the company achieved its objective of cash neutrality, compared with the investment led growth of recent years, and this continued in the first quarter of the current year.

Net bank borrowings were reduced over the year from £4.8m at halfway to £3.7m at the end, helped by £1.7m worth of asset sales.

Net revenue fell from £15.39m to £13.35m, but the figures were badly hit by the falling value of the US dollar—some 75 per cent of sales receipts are quoted and paid in dollars. Restated in currency terms, the revenue figures show a rise from £17.4m to £18.5m, which the chairman found a pleasing outcome in "a very difficult trading year."

Because half of total costs are also expressed in dollars, the exchange rate fluctuation had less effect on profits—it added only £258,000 to the taxable loss, and reduces reserves by £0.9m.

The chairman says that 1986 is a year to fund investment from operations, build productivity in marketing into a relatively flat marketplace, and continue to develop disciplines in cost and cash control. "The result should be a year of cash neutrality, and a company which is effective, cohesive and disciplined."

There is no dividend again.

● comment

Any investment in Micro Focus is still taking a fair amount on trust. The dissipating losses and cash outflows were staunched towards the end of the financial year and the balance sheet has come through in reasonable enough shape after some asset disposals with net debt of £3.7m standing just a little over 30 per cent of shareholders' funds. The demise of some of the smaller customers—plus the company's own efforts to chase after stable players—has created a sounder, better quality customer profile as the directors take pains to stress and product development is high on the priority list although something less than last year's £4.2m expenditure is anticipated in 1986. Nevertheless the market outlook is far from buoyant and Micro Focus remains a hostage to exchange rates with three-quarters of its business transacted in dollars. If all goes well this year could provide a small profit to underpin the market capitalisation of £22m after a 40p fall to 190p. A year ago the shares were almost £10 each.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Aspinall, Kelsey Industries, Northern Industrial Improvement Trust, Spectrum, Talbot.

Finals: Carless Capel and Leonard, Millets Leisure Shops, New England Properties, H. Samuel, Stewart Enterprise Investment, Toshiba.

FUTURE DATES

Interims—
Dewhurst .... July 17
Nolton .... May 30

Finals—
Air Call .... May 28
Pyes .... June 3
Reed International .... June 4
Sheraton Securities .... June 3
Stress Investments .... June 5

Deritend optimistic as profits top £2m

CONTINUED progress over the second six months enabled Deritend Stamping to raise its profits for the full 1985-86 year from £1.82m to £2.12m at the pre-tax level.

The year ahead is looked at with a degree of optimism despite the difficulties facing manufacturing industry, the Worcestershire-based group's interests are in forgings, castings and electrical installations.

Turnover for the past year to end-February, pushed ahead from £57.9m to £67.67m and generated trading profits of £2.78m against a previous £1.96m. Interest charges rose to £656,000 (£439,000).

Net profits emerged £314,000 higher at £1.44m after deducting tax of £678,000 [illegible] from £288,000. There were extraordinary credits this time of £96,000.

Earnings improved by 4p to 27.4p per 50p share and a final dividend of 5.6p (4.5p) lifts the net total to 8p [illegible] increase over 1984-85 [illegible].

The first half year (to August 31 1985) saw pre-tax profits rise by 65 per cent to [illegible].

McInerney static

With the contribution from its associates falling from £11.48m to £861,000 McInerney Properties, Dublin-based house-builder, say its profits for the 1985 year remain virtually static at £3.04m (£2.71m). Earnings were 19.6p (22.1p) and a final dividend of 4p holds the net total at 5p.

Albion rises

Albion, the Belfast-based clothing manufacturer, lifted profits before tax from £171,000 to £243,000 in the half year to March 31 1986, and the interim dividend is increased 0.2p to 0.8p on earnings of 6.16p.

Turnover rose from £3.29m to £3.89m, and the result benefited by £66,000 from a government revenue grant, which the directors say could be repayable under certain circumstances.

Trading conditions have been more difficult over the past few months, but the directors are hopeful that full year will show continued progress.

DRG acquisitions

DRG, a stationery and packaging group, has spent a further £4m to acquire two more businesses in the latest of the series of acquisitions since its rights issue in September 1985.

The company has completed the acquisition of Laboratoires Steril Packing Systems, near Paris. Mr Souard, who established SPS, continues to manage the business, which complements DRG's existing specialist medical packaging interests in the UK and continental Europe.

DRG has also acquired Murfax of Luton, wholesaler of stationery and office supplies. It has a turnover of about £4.5m per annum.

"THE TIMES" Veneer, timber merchant, reports taxable profits of £168,000 (£152,000) for 1985. Turnover was £6.38m (£5.99m) and earnings per share 1.21p (1.71p). Dividend is unchanged at 0.5p.

Don Brothers Buist

Don Brothers Buist, fabric manufacturer, announced yesterday that it was in talks with Shell UK which might lead to a bid for the company. Its shares were suspended pending a further announcement.

Jermyn Inv. higher

Jermyn Investment Company reported earnings per share of 11.23p (6.51p). The directors are recommending a single payment of 2p, up from the previous 1.625p. Net asset value was 117p, against 105p.

BANK RETURN

BANKING DEPARTMENT	Wednesday May 21, 1986	Increase or decrease for week
LIABILITIES	£	£
Capital	14,553,000	
Public Deposits	[illegible]	[illegible]
Bankers Deposits	[illegible]	[illegible]
Reserve and other Accounts	[illegible]	[illegible]
	2,464,069,331	[illegible]
ASSETS		
Government Securities	[illegible]	[illegible]
Advance & other Accounts	[illegible]	[illegible]
Premises Equipment & other Secs.	[illegible]	[illegible]
Notes	[illegible]	[illegible]
Coin	[illegible]	[illegible]
	2,464,069,331	[illegible]

ISSUE DEPARTMENT		
LIABILITIES		
Notes in circulation	[illegible]	[illegible]
Notes in Banking Department	[illegible]	[illegible]
	[illegible]	[illegible]
ASSETS		
Government Debt	[illegible]	
Other Government Securities	[illegible]	[illegible]
Other Securities	[illegible]	[illegible]
	[illegible]	[illegible]

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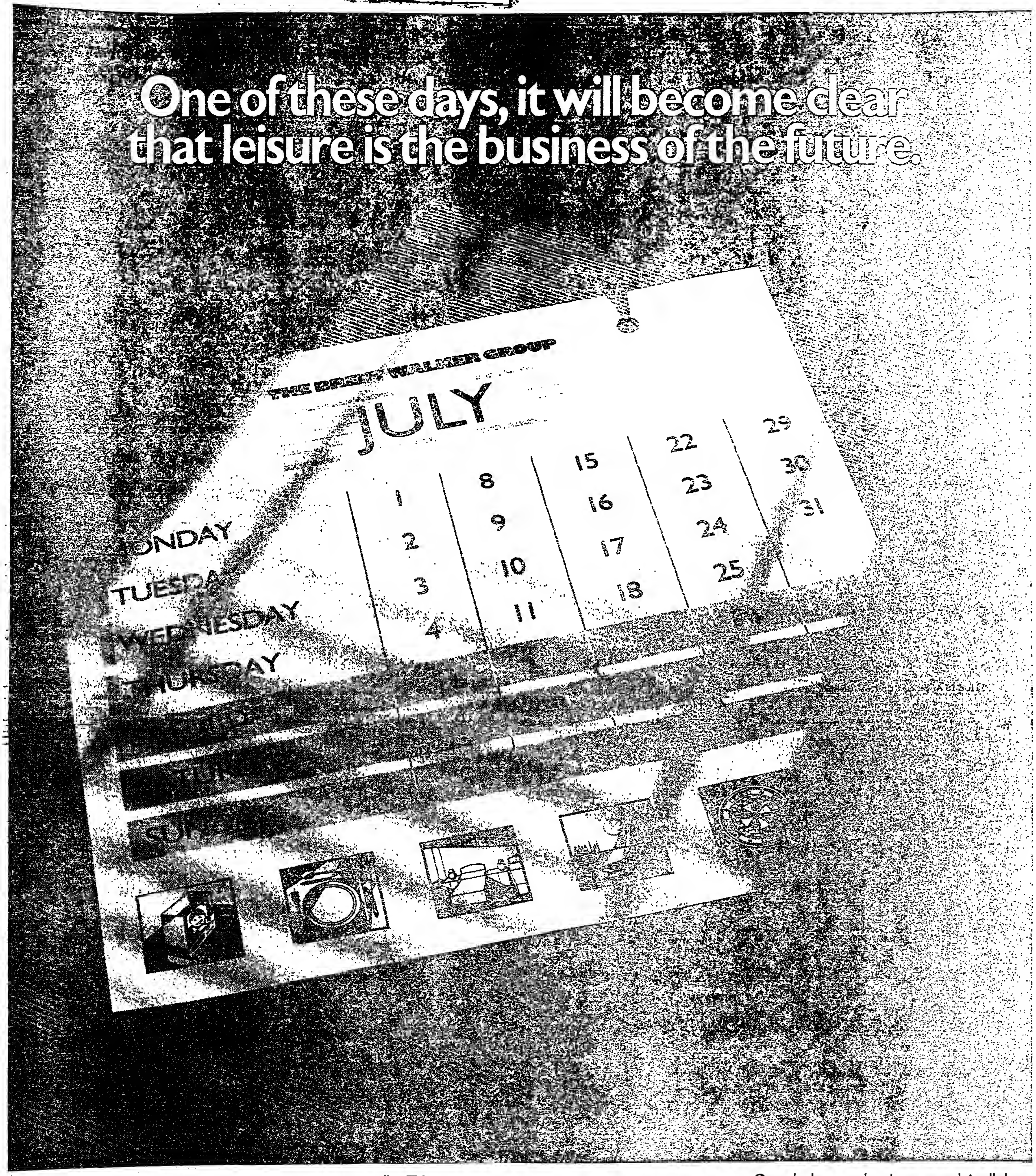


This much is certain: in the not-too-distant future, people will have a great deal more leisure time.

As to the form it will take, an extra Saturday is perhaps unlikely.

But of some things we can be sure.

Tomorrow's sports and leisure centres will have a much broader appeal, with far better and far more varied facilities.

Film, television and video will also provide more entertainment, especially with the advent of cable and satellite TV.

And the traditional pleasures offered by restaurants and hotels will doubtless remain as attractive as ever.

All of which means that many more people will be spending much more time doing what they enjoy.

And of course time isn't all they'll be spending. After a week's hard work, and even more so after a lifetime's, people are ready to reward themselves – as our own experience proves.

Over the last two decades, our work in all these areas has turned Brent Walker into one of the country's fastest-growing leisure groups. All of our businesses are thriving, and we have several major new projects underway, including our Brighton Marina development and the giant Basildon Astrodome sports centre.

In short, our prospects are now better than ever.

And why shouldn't they be?

After all, people do have a great deal of time for us.

THE BRENT WALKER GROUP

WORKING FOR PLEASURE

APPOINTMENTS

Rolls-Royce UK sales director

ROLLS-ROYCE MOTORS has appointed as director for its sales operations in the UK Mr Malcolm Hart. He joined Austin Morris in 1972 and his more recent responsibilities with Austin Rover include director — UK service, director — field sales operations and for the last three years, director — franchising and business development.

★

VOLEX GROUP has appointed five new directors: three divisional directors — Mr Patrick Cullen (electrical accessories), Mr Grahame Davies (electrical wiring systems) and Mr Frank A. Kennedy (Pencon moulded plugs and connectors); Mr Terence Keeling joins the board as group business development director; and Dr Robert G. J. Telfer as a non-executive director. Dr Telfer is director of the Manchester Business School and a non-executive director of Renold among others. For three years to 1984 he was chairman and managing director of Mather & Platt following a career with ICI culminating as chairman of the petrochemical division.

★

Mr Vernon Davies, a non-executive director of ATLANTIC COMPUTERS has retired to develop his interests in property. He will be replaced by Mr Nigel Jagger, who will become an executive director. Mr John Tompkins is to retire from the board in June, to pursue his own interests in property. He will maintain his interests with Atlantic Computers, becoming consultant advising on acquisition policy. Mr Philip Robinson will become the new finance director in June. He was group finance director, BSR. Mrs Sien Yin Cheng Kai On, the company secretary, is to become a main board executive director.

★

Mr Jeremy Kane has been elected president of the COCOA, CHOCOLATE AND CONFECTIONERY ALLIANCE for the year 1986-87. He is a director of Mars.

★

Mr Paul D. A. Nix has been appointed a director of GOVETT ATLANTIC INVESTMENT TRUST. He is a director of M & C Investment Management and has been responsible for M & G's North American investments for over 15 years.

★

Mr Jim Findlay, sales director of Nu-Way, has been elected president of the BRITISH COMBUSTION EQUIPMENT MANUFACTURERS ASSOCIATION.

★

Mr Richard Eddis, of STEPHENSON HARWOOD, will be retiring as senior partner on April 30, 1987, but will remain as a full-time partner. He will be succeeded by Mr Anthony Isaacs who, in the meantime, has become deputy senior partner.

★

Mr Michael Bird, has been appointed marketing and sales director of RESOURCE EVALUATION, a management consultancy specialising in working capital reduction. He joined the company as a director in 1979 and has spent the last three years establishing the inventory reduction division. Mr John R. Hackett has been appointed to the board as director responsible for investigations and surveys.

★

A. GOLDBERG & SONS, Glasgow, has restructured the group into two operating companies, retail and development. Mr Michael Marks has been appointed managing director of the retail company and Mr Terry Raciomer becomes managing director of the development company. He was finance director. Mr Ian Steven has been appointed finance director and Mrs Anna Leon has become company secretary.

★

THORNTON UNIT MANAGERS has appointed Mr Jon Broome as sales director. He was with GT Management.

★

Mr David Williams has been appointed to the board of WESTON HYDE PRODUCTS as financial director. Weston Hyde is an associate company of ICI.

★

ALLIANZ LEGAL PROTECTION INSURANCE COMPANY, Bristol has made the following appointments:—Mr John C Long, as managing director; Mr Stuart M. Cliffe, underwriting and marketing manager; Mr Norman J. Clark, administration manager; Mr James W. Collett, claims manager; and Mr Allan Truman, sales manager.

Barclays man for Deloitte

Mr Nicholas Morriss has joined DELOITTE HASKINS & SELLS as a partner to head the funding group within the corporate finance division. He joins from Barclays Merchant Bank where he was a senior assistant director in corporate finance.

★

Mr James Mason has been appointed chairman of the CO-OPERATIVE WHOLESALE SOCIETY. This follows the retirement of Mr Peter Paxton who had held the position since 1980. Mr Mason has been a member of the CWS board since 1975 and its vice chairman since 1981. He is chairman of Lancashire Enterprises and has served as chairman of the Warrington and Runcorn Development Corporation. Among a number of Co-op offices, he is chairman of the central executive of the Co-op Union and a director of the Co-operative Bank, Unity Trust and Co-operative Retail Services. The new vice chairman is Mr Lennox Fyfe, chief executive officer of the Leicestershire Co-operative Society. Mr Fyfe has been on the CWS board since 1981. He has spent his entire career with Co-operative societies and was formerly for two years general manager in charge of CWS retail operations in Scotland. He is chairman of Shoefayre, the Co-op's shoe retailing organisation.

★

Mr Peter A. Bernard has joined LIBRA BANK as deputy general manager—finance. He was group treasurer of Grand Metropolitan.

★

EQUATORIAL TRUST CORPORATION has appointed Mr Harold A. Hitchcock to the board as non-executive director. He is also on the board of British Aerospace and Bank of New Zealand, London.

★

Mr Peter Hersenhoel has been elected president of the BUILDING EMPLOYERS CONFEDERATION for 1986-87. He is chairman of Ackroyd & Abbott, Sheffield. Senior deputy president is Mr John Paxton, William Cowlin & Son, Bristol; junior deputy president is Mr Roger Miller, James Miller & Partners, Edinburgh; and honorary treasurer is Mr Christopher Pratt, William Sindall, Cambridge.

★

Mr Adrian Fort has been appointed director of HOARE GOVETT (MONEYBROKING). He was a director of Smith St Aubyn (Holdings).

★

Mr Jonathan Williams has been appointed to the board of MICHAEL PAGE UK financial and accountancy recruitment subsidiary of Addison Page Chetwynd Street. He was a director in Michael Page City.

★

Mr Emmanuel J. Olympitis has been appointed a managing director of the Aitken Hume group and Whittington International Holdings, parts of AITKEN HUME INTERNATIONAL. He was a director of Bankers Trust International London and a vice president of Bankers Trust Company, New York.

CONTRACTS

£8m rail order for Hawker-Siddeley

A contract worth over £8m has been awarded to WESTINGHOUSE SIGNALS, a Hawker Siddeley company, by the New Zealand Railways Corporation for communication facilities for stage II of its North Island main trunk railway electrification programme. Under the contract Westinghouse is responsible for the design, supply, installation and commissioning of comprehensive communications systems from Ohakune to Hamilton.

The complete communications network which uses multimode and single mode optical systems, will collect and distribute data and voice information from trackside locations for transmission to operational control centres and will provide trunk communications. The backbone of the network is a 34 Mbit/s optical fibre system which operates at 1,300nm over two monomode fibres of the six fibre trackside cable. Final commissioning of stage II is scheduled for early in 1988.

★

DAVY McKEE (STOCKTON) has won a £2.4m order from Ashanti Goldfields Corporation (Ghana) for the design and supply of a gold treatment plant for the Ashanti mine in Ghana. The plant, which will treat 3,000 tons per day of dump tailings by gravity concentration, carbon in pulp adsorption, carbon elution and regeneration, electrowinning and smelting, is part of a modernisation programme to raise gold production from 250,000 to 400,000 ozs per year. The programme is financed by an ECGD-supported loan from Standard Chartered Merchant Bank plus a loan from the International Finance Corporation.

In the US Davy McKee's subsidiary in San Francisco has been awarded an engineering and construction management contract by Gold Fields Mining Corporation of Colorado for a 2m tons per year gold ore processing plant in Nevada, using conventional milling and heap leaching techniques. Gold Fields is a wholly-owned subsidiary of Consolidated Gold Fields of London.

★

THE ROTARY GROUP has been awarded several mechanical and electrical contracts. They include £9m for the supply of engineering resources to Baxter Fell International in North Africa, a £2m contract in Iraq for operation and maintenance facilities for the Iraqi Ministry of Trade, and other overseas work including a PSA contract in Gibraltar.

In the UK, Rotary has secured the electrical installation on Berths 7 and 8 at Faslane in Scotland and the Museum of Moving Images in London with Bovis Construction.

★

JOHN WILLMOTT (BEDFORD) will be extending the sergeants' mess at RAF Henlow. The contract is worth about £1.1m and is for the Property Services Agency. The extension incorporates a three-storey building of traditional construction to provide an additional 80 bedrooms, together with an extension to the lounge bar more than doubling the size of the existing premises. Work has started and will take 16 months to complete. A further contract is for a single-storey combined junior and middle school at Willen, Brickhill Road, Milton Keynes, valued at £887,000. Work on the 18-month contract has started. Other recent contracts include a £820,000 new primary school at Bradwell Common, which will provide 480 places for 5-12-year-olds and two storeyed old people's home at Neath Hill, valued at £881,000.

★

RUSH & TOMKINS and SIBEC DEVELOPMENTS are to undertake a £5m redevelopment of Old Square shopping centre in Walsall. The precinct and square of the 1960s shopping centre are to be glass roofed and tiled to form an air-conditioned mall and the 33 shop units totalling 63,000 sq ft are to receive a major facelift. The tenants, which include Debenhams, will continue trading throughout the project. R&T and Sibec's joint company SRT Developments will be undertaking the scheme with funding being provided by Security Pacific and construction management by R&T's Leeds construction office.

★

Albrew Malsters a member of the Allied Lyons Group, has placed a £2m contract with REDLER part of Evered Holdings, for the expansion of its malting plant at Mistley, Essex. Redler will be supplying grain storage facilities, a steeping vessel and a combined germinating and kilning vessel. The plant will be combined with the existing facility by means of an integrated control system and upgrading some of the existing equipment. The contract will be completed over a 12 month period so as not to disrupt existing production from the plant.

BASE LENDING RATES

	%		%
ABN Bank	10½	Financial & Gen. Sec.	10½
Allied Dunbar & Co	10½	First Nat. Fin. Corp.	11½
Allied Irish Bank	10½	First Nat. Sec. Ltd	11½
American Express Bk.	10½	• Robert Fleming & Co.	10½
Amro Bank	10½	Robert Fraser & Ptrs.	11½
Henry Ansbacher	10½	Grindlays Bank	‡10½
Associates Cap Corp	11	• Guinness Mahon	10½
Banco de Bilbao	10½	• Hambros Bank	10½
Bank Hapoalim	10½	Heritable & Gen. Trust	10½
Bank Leumi (UK)	10½	• Hill Samuel	§10½
Bank Credit & Comm.	10½	C. Hoare & Co.	10½
Bank of Cyprus	10½	Hongkong & Shanghai	10½
Bank of Ireland	10½	Johnson Matthey	10½
Bank of India	10½	Knowsley & Co. Ltd	11
Bank of Scotland	10½	Lloyds Bank	10½
Banque Belge Ltd	10½	Edward Manson & Co	11½
Barclays Bank	10½	Meghraj & Sons Ltd	10½
Beneficial Trust Ltd	11½	Midland Bank	10½
Brit. Bk. of Mid. East	10½	• Morgan Grenfell	10½
• Brown Shipley	10½	Mount Credit Corp. Ltd	10½
CL Bank Nederland	10½	National Bk. of Kuwait	10½
Canada Permanent	10½	National Girobank	10½
Cayzer Ltd	10½	National Westminster	10½
Cedar Holdings	12	Northern Bank Ltd.	10½
• Charterhouse Japhet	10½	Norwich Gen. Trust	10½
Citibank NA	10½	PK Finans. Intl (UK)	11½
Citibank Savings	¶10.75	Provincial Trust Ltd	11½
City Merchants Bank	10½	R. Raphael & Sons	10½
Clydesdale Bank	10½	Roxburghe Guarantee	11
C. E. Coates & Co. Ltd	12	Royal Bank of Scotland	10½
Comm. Bk. N. East	10½	Royal Trust Co. Canada	10½
Consolidated Credits	10½	Standard Chartered	10½
Continental Trust Ltd	10½	Trustee Savings Bank	10½
Co-operative Bank	*10½	United Bank of Kuwait	10½
The Cyprus Popular Bk	10½	United Mizrahi Bank	10½
Duncan Lawrie	10½	Westpac Banking Corp	10½
E. T. Trust	11½	Whiteaway Laidlaw	11
Exeter Trust Ltd.	11	Yorkshire Bank	10½

• Members of the Accepting Houses Committee. * 7-day deposits 6.38%. 1-month 6.69%. Top Tier—£25,000+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.35%. Mortgage 11%.

FT LAW REPORTS

Casualty investigation does not bar court action

SPEEDLINK VANGUARD v EUROPEAN GATEWAY
Queen's Bench Division (Commercial Court): Mr Justice Steyn: May 21 1986.

THE FUNCTION of a court of formal investigation into a shipping casualty is investigatory, not judicial, and contending shipowners are therefore not precluded by issue estoppel from raising the subject matter of its findings in subsequent court proceedings.

Mr Justice Steyn so held on a preliminary issue in proceedings by the owners of Speedlink Vanguard against the owners of European Gateway, arising out of a collision between the two vessels.

Section 466 of the Merchant Shipping Act 1894 provides: "(2) A wreck commissioner . . . shall at the request of the Board of Trade hold a formal investigation into a shipping casualty . . . and any reference to the court holding an investigation . . . includes a wreck commissioner holding such an investigation . . . (6) The court after hearing the case shall make a report to the Board of Trade . . . (10) . . . the court shall have all the powers of a court of summary jurisdiction . . ."

* * *

HIS LORDSHIP said that on December 19 1982 European Gateway collided with Speedlink Vanguard in the approaches to the port of Harwich. Two passengers and four crew members lost their lives.

The Secretary of State for Transport, acting under section 466 of the Merchant Shipping Act 1894, directed that a formal investigation be held into the collision by a wreck commissioner. The Court of Formal Investigation ["the Formal Court"] had all the powers of a magistrates' court acting in the exercise of its ordinary jurisdiction.

The *Shipping Casualty Rules* 1923 applied to the formal investigation, which was constituted before their repeal in 1983.

The hearing took place between November 1983 and March 1984. The owners of Speedlink Vanguard succeeded in satisfying the Formal Court that the preponderant blame was that of the master of European Gateway.

The owners of Speedlink Vanguard issued a writ against the owners of European Gateway. They based their case on the findings of the Formal Court. Bearing in mind that their master had been found to be culpable, though less so than the master of European Gateway, they asked for judgment for 80 per cent of the damages.

A defence and counterclaim were served, denying all liability and asking for judgment in favour of European Gateway. The denials and averments in the defence and counterclaim were in many material respects at variance with the findings of the Formal Court.

The owners of Speedlink Vanguard, in their reply and defence to the counterclaim, pleaded that the owners of European Gateway were precluded by the doctrine of issue estoppel from re-opening the findings of the formal investigations.

In March 1986 a limitation action was commenced by the owners of Speedlink Vanguard in the Admiralty Court against the owners of European Gateway. At issue was the question whether the collision took place without the actual fault or privity of the owners of Speedlink Vanguard.

The owners of *Speedlink Vanguard* again relied on issue estoppel and asserted that the owners of European Gateway were precluded by the findings of the Formal Court from contending that there was actual fault or privity on the part of the owners of Speedlink Vanguard.

Both actions were due to be heard in October 1987. The Admiralty judge ordered the hearing of preliminary issues on the questions of issue estoppel.

The case was concerned with a kind of estoppel known as issue estoppel *per rem judicatem*. In *The Sennar (No. 2)* [1985] 1 WLR 490 Lord Brandon stated the requirements of that kind of estoppel: "The first requirement is that the judgment in the earlier action relied on as creating an estoppel must be (a) of a court of competent jurisdiction, (b) final and conclusive and (c) on the merits. The second requirement is that the parties . . . must be the same. The third requirement is that the issue . . . must be the same . . ."

The issue was whether Lord Brandon's first requirement was established.

The question must ultimately depend on the true function of the Formal Court under section 466 of the 1894 Act and the 1923 Rules, and the way in which the inquiry was conducted.

It was difficult to visualise that, as between contending shipowners, the Formal Court could be acting as a court of competent jurisdiction trying an issue of civil liability unless there was in such inquiry, a properly constituted *lis* [issue] between the shipowners.

Section 466 prescribed the procedure to be adopted only in the broadest outline. It provided that the person who had applied for formal investigation should be bound to superintend the management of the case. In relation to a master or other certificated officer there was a power to cancel or suspend a certificate. No sanctions could be imposed on a shipowner, other than an order for costs.

The section did not provide for the trying of questions as to civil liability between contending shipowners. *Prima facie*, therefore, apart from its disciplinary function, the functions of a Court of Formal Investigation were entirely investigatory.

The parties to a formal investigation were the Secretary of State for Trade, the owners, the master and any certificated officer or other person on whom a notice of investigation had been served.

The notice of investigation stated the questions which the Secretary of State intended to raise. It was the exclusive prerogative of the Secretary of State to frame such questions as he deemed fit. The Formal Court must answer those questions and not consider any others.

What could be inferred from the general tenor of section 466 was made explicit by the 1923 Rules: there was no lis between contending shipowners. *Prima facie*, that factor militated cogently against the submission that the Formal Court was acting as a court of competent jurisdiction.

It was submitted that in considering whether an issue estoppel arose it was permissible to look at the way in which the inquiry was conducted, and that the fact that the proceedings were conducted partly in an inquisitorial fashion as opposed to the traditional adversarial system, did not preclude an issue estoppel.

The proposition that a partly inquisitorial procedure did not by itself preclude issue estoppel could readily be accepted. It was submitted, however, that the contending shipowners had in fact adopted an adversarial approach. That submission was an indispensable part of the case in favour of issue estoppel arising, but it was not sufficient in law.

Mr Willmer, for Speedlink *Vanguard*, pointed out that an owner who appeared at the hearing and was affected by the decision might appeal to the High Court (section 66). He said that showed a judicial decision was involved.

Until 1906 an owner had no right of appeal. If from 1894 when section 466 was enacted until 1906 when the right of appeal was created, the function was investigatory, it would be strange if it became adjudicative merely by the creation of a right of appeal.

It was a limited right of appeal. Its existence did not alter the view that there was no *lis* between the contending shipowners, and that the function of the Formal Court did not extend to pronouncing on civil liability.

Other indicia in the Act which lent support to the view that the findings of the Formal Court were not intended to be conclusive as between contending owners included section 475, which provided that the Secretary of State might order the case to be reheard. If the findings were judicial in character, it was difficult to see why a third party should have the absolute right to order a rehearing.

There were other features of the procedure under the 1923 Rules, which were very different from the procedure in civil proceedings. There was no direct power to order and enforce general discovery of documents; parties were not placed in the position of plaintiffs and defendants; the first and final word rested with the Secretary of State; witnesses could be compelled to testify and there was no privilege against self-incrimination; decisions might be communicated in writing.

None of those was of decisive importance. Cumulatively however, they tended to support the conclusion that, apart from its limited disciplinary function, the Formal Court fulfilled a purely investigatory function.

Both sides prayed in aid policy considerations. The owners of *Speedlink Vanguard* stressed the wastefulness which would result if the Formal Court's findings could be relitigated.

That consideration was outweighed by the factors relied on by the owners of European Gateway.

They were right in asserting that if it were held that the findings of a Formal Court were conclusive as between contending owners, that would have a detrimental effect on the functioning of such investigations. It would lead to a shift from safety at sea to the determination of civil liability as the major purpose of the inquiry.

It would probably also tend to have an inhibitory effect on parties who would otherwise seek to be joined. Such parties would have to consider carefully whether they wished to have their potential civil rights and liabilities determined at a wreck inquiry or in the Admiralty Court.

One could visualise other ways in which the effectiveness of an inquiry could be hampered. It would necessarily involve each party putting forward his case on all issues whereas at present a party was fully entitled to concentrate on essentials. Also foreign owners who were potentially exposed to civil liability would be less likely to afford assistance.

The provisions of the 1894 Act and of the 1923 Rules showed that the Court of Formal Investigation was not intended to act as a court of competent jurisdiction. It followed that no issue estoppel arose.

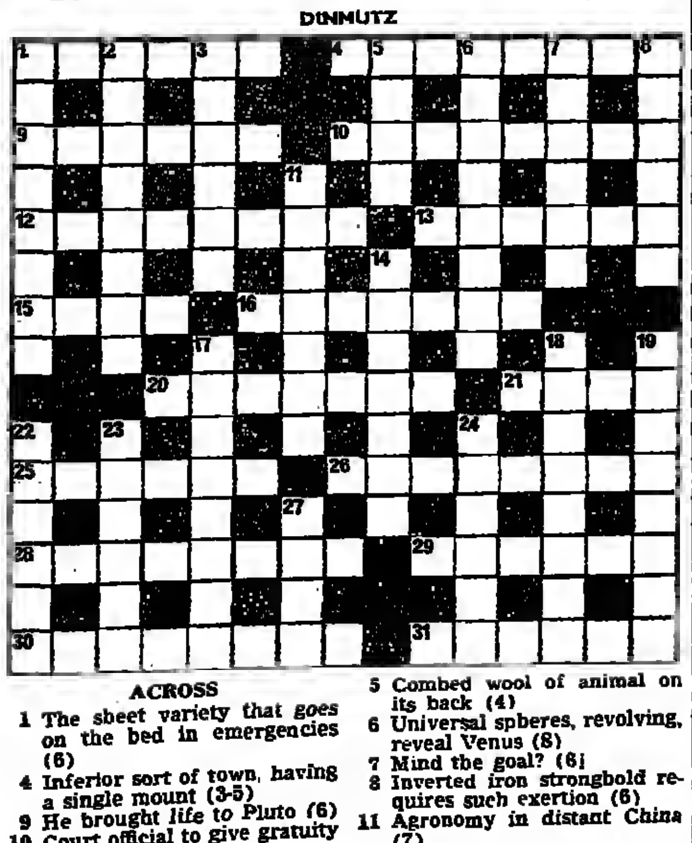
For Speedlink Vanguard: John Willmer QC and Simon Gault (Ingledew Botterell Roche and Pybus).

For European Gateway: Anthony Clarke QC and Nigel Teare (Norton Rose Botterell and Roche).

By Rachel Davies
Barrister

F.T. CROSSWORD PUZZLE No. 6,029

DINMUTZ



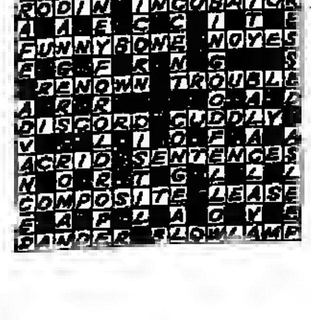
ACROSS

1 The sheet variety that goes on the bed in emergencies (6)
4 Inferior sort of town, having a single mount (3-5)
9 He brought life to Pluto (6)
10 Court official to give gratuity to employees (8)
12 Difficult delivery from the east (8)
13 Journey routed another way (6)
15 Eg jemmy for putting booty back (4)
16 Status of a RU team in scrimmage? (7)
20 Iris, painter in forepart of ship (7)
21 Cross-beam developed in hospital? (1-3)
25 Some children ought to be sufficient (6)
26 Spode, for instance, as 12? (8)
28 Setting aside space in library (8)
29 Rubbing noses is OK with me, in a way (6)
30 Stuff for animal's partner, turning burrow over. . . . (8)
31 . . . stretch a piece of the stuff (6)

DOWN

1 Daring little Audrey to take a bath, say? (8)
2 Tough material of Cortina's conversion (4, 4)
3 Works and plays (6)
5 Combed wool of animal on its back (4)
6 Universal spheres, revolving, reveal Venus (8)
7 Mind the goal? (6)
8 Inverted iron stronghold requires such exertion (6)
11 Agronomy in distant China (7)
14 Bowed, as in Goldsmith's play? (7)
17 "Head" of German house around Gateshead (8)
18 British Rail supporting scrambled eggs? (8)
19 But one does not see the dentist with it! (3-5)
22 Material to lighten craft of James the First, possibly (6)
23 Secret envelope with letter that is crossed (6)
24 Common difficulty for hearty around ship (6)
27 Money for a royal governess? (4)

Solution to puzzle no. 6,028



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Sentinel Funds Mngmnt Ltd
30 City Road, London EC1Y 2AY 01-628 6626

American Majors	68.4	73.2	+1.4	1.12
Amer Tech & Genl Fd	101.9	109.0	+0.9	0.55
European Growth	31.6	33.8	+2.0	0.03
European Income	35.3	37.8	+1.1	4.00
Exempt	535.4	572.9		2.03
Intnl Growth Fd	28.7	70.7	+0.1	0.13
International Income	55.7	59.6		4.96
Jap Tech & Genl	91.6	98.0	+2.0	0.01
Pacific Fund	157.3	168.3	+1.2	0.01
Secure Income Fd	172.2	104.3	+0.2	4.54
Small Co's Fd	37.1	39.7	+0.1	1.45
Special Sits	211.2	226.0	+1.3	2.18
UK General Fund	33.5	35.8	-0.3	2.32

Standard Life Trust Mgmt. Ltd
3 George St, Edinburgh EH2 2XZ 0800 393777

Managed Trust Acc	23.8	25.5	+0.2	3.0
UK Equity Gilt Tst Acc	24.1	25.8	-0.1	2.00
UK Equity High Inc Inc	24.6	26.4	+0.7	5.00
UK Equity Gen Tst Acc	27.3	29.3	+0.2	3.09
UK Equity Gen Tst Inc	24.1	26.5	+0.2	3.09
Gilt & Fxd Int Tst Inc	23.7	25.4		6.0
Nrth Amer Tst Acc	23.8	25.4	+0.4	2.00
Far East Trust Acc	23.4	25.1	+0.1	0.75
European Trust Acc	23.5	25.2	+0.2	1.25

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh 031-226 3271

American Fund	216.3	230.4		2.39
(Accum. Units)	242.9	258.8		2.39
(W'drawal Units)	151.8	161.8		2.39
Australian Fund	111.0	118.3		1.14
(Accum. Units)	114.3	121.9		1.14
British Fund	580.9	610.7		4.40
(Accum. Units)	782.4	833.4		4.40
European Fund	267.9	285.4		0.95
(Accum. Units)	282.0	300.4		0.95
Japan Fund	273.2	291.0		0.25
(Accum. Units)	274.5	292.5		0.25
Saints PPP	158.2	166.6		

Sun Alliance Fund Management Ltd
Sun Alliance House, Horsham 0403 56293

Equity Tst	386.2	410.8	+3.2	1.87
North American	57.6	61.2	+0.6	1.26
Far East	69.5	73.9	+0.9	0.10

Sun Life Trust Mgmt. Ltd
107 Cheapside, London EC2V 6DU 01-606 6010

American Growth Acc.	32.3	34.6	+0.2	1.4
American Income Acc.	30.9	32.9	+0.3	5.5
American Income Inc	30.4	32.4	+0.3	5.5
European Growth Acc.	47.4	50.9		0.8
European Income Acc	32.6	34.1		4.5
European Income Inc	22.6	24.1		4.5
Far East Growth Acc.	39.6	42.1	+0.4	0.6
Int. Growth Acc.	31.1	33.2	-1.6	2.0
Japan Growth Acc.	49.1	52.2	+0.8	0.1
UK Growth Acc.	36.6	38.9	+0.2	2.7
UK Income Acc.	32.6	34.7	+0.3	5.5
UK Income Inc.	31.0	31.8	+0.1	5.3
Managed Growth Acc	41.4	44.1	+0.4	2.0
Managed High Yield Inc	45.9	48.8	+0.1	7.0
Managed Income Inc	35.5	37.8	+0.2	3.5

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)
99-101 London Rd, Sevenoaks 0732 450163

Equity Dist.*	268.6	284.2		3.52
Equity Acc.*	327.5	346.5		3.52
Fixed Int. Dist.†	125.8	130.3		10.38
Fixed Int. Acc.†	190.9	197.8		10.38

*Prices on May 16. Next dealing June 11
†Prices on May 16. Next dealing June 4

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens House, Andover, Hants SP10 1PG
0264 62188 Dealings to 0264 63432-3

TSB American	116.2	123.7	+1.3	1.07
Do. Accum.	178.9	128.7	+1.3	1.07
TSB European	47.2	50.3		0.67
Do. Accum.	47.2	50.3		0.67
TSB Extra Income	107.0	113.8	+0.4	5.06
Do. Accum.	125.0	132.9	+0.4	5.06

Abbey Life—Continued
Pension Funds

Property	350.6	369.1	
Equity	1534	743.6	+0.8
Selective	247.6	260.7	+0.2
Managed	609.7	641.8	
Security	328.9	346.3	
Fixed Int	205.7	216.6	-0.4
European	175.3	104.6	-0.1
American	217.2	228.7	-0.9
Japan	220.6	232.3	+3.0

Aetna Life Insurance Co Ltd
401 St John St, London EC1V 4QE 01-833 2303
Life Funds (Accumulator Units)

Squirrel	10.47	11.03	-0.01
Bear	11.27	11.87	+0.03
Owl	11.64	12.26	+0.06
Bull	12.58	13.25	
Stag	12.31	12.96	+0.01
Gilt-Edged		11.29	
Deposit		9.63	

Pension Funds (Accumulator Units)

Squirrel	11.07	11.66	
Bear	12.11	12.75	-0.03
Owl	12.54	13.21	+0.05
Bull	13.96	14.68	+0.07
Stag	13.66	14.38	+0.02
Gilt-Edged		11.34	
Deposit		9.72	
Exempt Approved Mixed Managed	129.53	132.18	+0.50

Albany Life Assurance Co Ltd
3 Darkes Lane, Potters Bar 0707 42311

Equity Fd. Acc (z)	703.5	740.4	+1.6
European Fd Accum (z)	192.8	202.9	-1.0
Fixed Int. Acc (z)	307.2	323.3	+1.6
Gtd. Money Fd. Ac. (z)	196.7	207.0	
Intl Man Fd. Acm. (z)	288.8	304.0	+1.2
Intl Fxd Int Fd Acc (z)	175.8	185.0	+0.7
Japan Fund (z)	218.0	229.5	+0.9
NB American Fd Acc (z)	164.2	172.7	+1.7
Prop. Fd. Acc. (z)	198.8	209.4	
Multiple Inv. Acc. (z)	494.5	520.5	+1.3

Pension Funds

Eq Pen Fd Acc (z)	1264.7	1331.2	+4.2
Euro Fd Acc (z)	246.6	259.5	-1.9
Fixed Int. Acc. (z)	577.7	608.1	+4.5
Gt Money Pn Acc (z)	318.0	334.5	+0.1
Intl Man Fd (z)	401.6	422.7	+2.2
Jap Pen Fd Acc (z)	286.0	301.0	+1.7
N Am Pn Fd Acc (z)	189.5	199.5	+2.5
Property (z)	291.0	306.3	+0.1
Mltple Inv Pens Acc (z)	913.3	961.3	+3.5

Allied Dunbar Assurance Plc
Allied Dunbar Ctr, Swindon SN1 1EL 0793 28291

Fixed Int. Dep. Acc.	211.5	229.0	+0.3
Equity Acc.	627.2	660.3	-0.9
Property Acc.	311.8	328.3	+0.1
Far East Acc	131.1	138.1	-1.2
Managed Cap	310.4	326.8	-1.5
Managed Acc	501.5	527.9	-2.3
O'seas Earnings Acc.	409.1	430.7	-4.2
Gilt Edged Acc.	275.0	289.5	+1.3
American Equity Acc	355.3	374.1	+3.5
American Man Acc	169.5	178.5	+1.3
American Pens Acc	125.6	132.3	-0.2
Pen. F.I. Dep. Cap	239.4	252.3	
Pen. F.I. Dep. Acc.	368.8	388.3	
Pen. Prop. Cap	379.2	399.2	
Pen. Prop. Acc.	644.0	678.0	
Pen. Man. Cap	635.5	669.0	
Pen. Man. Acc	1079.2	1136.1	
Pen. Gilt Edg. Cap	283.9	298.9	
Pen. Gilt Edg. Acc.	394.1	414.9	
Pen. Eq. Cap.	1032.0	1086.4	
Pen. Eq. Acc.	1328.2	1398.2	
Pen. Am. Eq Cap.	136.2	1141.4	
Pen. Am. Eq Acc.	147.8	155.6	
Pen. Far East Cap.	152.8	161.0	
Pen. Far East Acc.	165.9	174.7	

Clerical Medical/Fidelity—Cont.
Executive Investment Pension Plan
Prices on April 23. Unit dealings on Wednesday

Cash Fd.	134.1	141.8
Mixed Fd.	190.1	200.2
Fixed Int. Fd.	154.7	162.9
UK Equity Fd.	222.6	234.4
Property Fd	128.5	135.3
Overseas Fd.	179.5	188.8
Index Linked Fd	113.8	114.8
Stock Ex. Fd.	153.9	162.1
North Am Fd.	113.7	119.7
Far East Fd.	125.2	131.8
Special Sits Fd.	151.4	159.4
Europ. Fd.	150.4	158.4

Initial prices available on request
For other prices telephone 0272 290566

Clerical Medical Managed Funds Ltd
15 St James's Sq, London SW1Y 4LD 01-930 5474

Cash	166.8	
Mixed	277.1	284.0
Fixed Interest	245.4	249.1
UK Equity	326.6	156.4
Property	147.0	153.6
Overseas	273.7	281.4
Index Linked	129.3	131.2
Stock Exchange	159.1	161.1

Prices on May 7. Unit dealings on Weds.

Colonial Mutual Group
24 Ludgate Hill, London EC4P 4BD 01-248 9861
CML (Unit Assurance)

Key		154.33
Pacemaker		179.11
Cash	118.77	125.03
Equity	221.62	233.28

Framlington Life Insurance Ltd
3 London Wall Buildings, EC2M 5NQ 01-628 5181

Pension Managed Fund	62.2	66.2	+0.4
Pension Cash Fund	61.5	nil	

Friends' Provident Life Office
Pixham End, Dorking (0306) 885055
Life Funds

Cash Accum	115.3	121.4	+0.1
UK Eq Acc	174.2	183.4	+0.6
Stewardship Acc	154.0	163.0	+0.5
Fixed Int Acc	132.0	139.0	-0.2
Index Linked Acc	105.1	110.7	+0.3
Mixed Acc	150.4	158.4	+0.5
Overseas Eq. Fund	149.8	157.7	
Property Acc	150.7	158.7	+1.0

'Individual Pension Funds'

Cash Cap	115.4	121.5	
Cash Acc	128.7	135.5	+0.1
UK Eq Cap	164.6	173.3	+0.8
UK Eq Acc	102.8	192.5	+0.8
Stewardship Cap	160.6	169.1	+1.0
Stewardship Acc	171.6	180.7	+1.1
Fixed Int. Cap	132.8	139.8	-0.4
Fixed Int. Acc.	147.6	155.4	-0.4
Index Linked Cap	96.7	101.8	+0.5
Index Linked Acc	107.5	113.2	+0.5
Mixed Cap.	144.8	152.5	+0.5
Mixed Acc	161.1	169.6	+0.6
Overseas Fund Cap	160.6	169.1	+1.1
Overseas Acc	178.6	102.0	+1.3
Property Cap	102.5	107.9	-0.4
Property Acc	114.0	120.0	

Managed Pension Fund—prices on request

GT Management Ltd
8th Floor, 8 Devonshire Sq, EC2 01-283 2575

Imperial Life Ass. Co of Canada
Imperial Life House, London Rd, Guildford 571255

Growth Fund	253.6	275.6	+1.1

Unit-Linked Portfolio

Managed Fd	239.1	251.7	+0.8
Fixed Int. Fd.	220.2	211.8	+0.7
Secure Cap Fd	164.8	173.5	+0.1
Equity Fd.	551.9	581.0	-2.6
Property Fd	172.2	181.3	

Pension Fund Portfolio

Pens Mn Fd Series 1	239.4	260.7	+0.9
Pens Mn Fd Series 2	239.0	252.0	+0.9
Pens Property Fd	113.0	119.0	
Pens Gilt-Edged Fd	121.0	127.4	+0.5
Pens Ind-Lnk Fd	112.3	118.2	
Pens Money Mkt Fd	110.2	116.0	
Pens UK Equity Fd.	185.1	195.0	+0.1
Pens Intl. Fd.	225.1	236.9	-1.0
Pens Mtge Rate Gtee Fd	181.1	190.7	+0.1

Imperial Life (UK) Ltd
Imperial Life House, London Rd, Guildford 571255
Imperial Investment Portfolio

Managed Fd	148.0	156.6	-0.5
Gilt-Edged Fd	124.2	130.7	+0.6
Property Fd.	141.1	149.1	
High Yield Fd	164.5	173.1	-1.7
Money Mkt. Fd.	113.5	119.5	+0.1
Ind-Link Gilt Fd	109.9	115.7	-0.1
UK Equity Fd.	216.0	196.9	-1.0
Intl Equity Fd	107.0	196.9	+0.2
Japan Fund	147.3	155.1	+0.9
N. America Fd	106.1	111.7	-0.4

Irish Life Assurance Co Plc
Lansdown House, 20 Chiswell St, EC1 01-638 1731

London Life—Continued
Pensions

Equity (P)	249.7	+0.2
Fixed Int. (P)	169.7	+0.3
Property (P)	158.2	+0.3
Deposit (P)	256.0	-0.3
Mixed (P)	138.4	-0.2
Index Stock (P)	161.3	-2.2

London & Manchester Group
Winslade Park, Exeter EX5 1DS 0392 52155

M & G Group
Three Quays, Tower Hill, EC3R 6BQ 01-626 4588

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Financial Times Friday May 23 1986

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund SA ... $17.32 ... −0.20

World Wide Growth Management
10a Boulevard Royal, Luxembourg
Worldwide Gth Fd ... $16.06

Yamaichi Dynamic Mngt Co SA
10a Boulevard Royal, Luxembourg
Advanced Tech ... $15.10
Dynamic Growth ... $16.33

Zero Bond Fund Limited
PO Box 20E, St Peter Port, Guernsey ... 0481 26268
Zero Bond Fund ... 411.60 ... 12.30

Money Market Trust Funds

	Gross	Net	Gr Equiv CAP	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit		11.15	—	3-Mth
The Money Market Trust 63 Qn Victoria St, EC4N 4ST 01-236 0952				
Call Fund	10.77	7.60	11.16	[illegible]
7-day Fund	10.26	7.61	11.20	[illegible]
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE 01-236 1425				
Call Fnd	10.00	7.53	10.80	6-Mth
7-day Fund	9.89	7.39	10.63	6-Mth
Dollar	5.01	...	—	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	10.00	7.70	10.42	Qtr
Aitken Hume 30 City Road, EC1Y 2AY 01-638 6070				
Treasury Acc	9.75	7.29	10.56	Qtr
Mth. Inc Chq	9.25	7.29	10.63	Mth
Allied Arab Bank Ltd 97-101 Cannon St, London, EC4N 5AD 01-283 9111				
MICA	10.5	7.85	11.46	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	9.50	7.10	10.33	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	9.13	7.125	10.31	Qtr
Britannia Investment Services Ltd. 74-78 Finsbury Pavement, EC2A 1JD. 01-588 2777				
Cater Allen	9.75	7.29	10.6148	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	10.13	7.57	11.04	Mth
U.S. Dollar	6.25	4.67	6.72	Mth
German Mark	4.00	2.99	4.27	Mth
Swiss Franc	2.50	1.22	2.59	Mth
Japanese Yen	4.50	3.36	4.50	Mth
Citibank Savings St Martins Hse, Hammersmith Grove 01-741 4941				
Money Market Plus	£5,000+	7.40	10.79	Mth

Co-operative Bank Cheque & Save
78-80 Cornhill, EC3 01-626 6543

NOTES — Prices are in pence unless otherwise indicated. 8 Periodic premium insurance plans. s Single premium insurance. o Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ● Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex Dividend.

TRADITIONAL OPTIONS
3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	18
BAT	38	Midland Bk	44
BOC Grp	32	NEI	C1
BSR	14	Nat West Bk	70
BTR	45	P & O Dfd.	45
Babcock	20	Plessey	20
Barclays	45	Polly Peck	16
Beecham	32	Racal Elect.	17
Blue Circle	55	RHM	20
Boots	26	Rank Org Ord	48
Bowaters	30	Reed Intnl	75
Brit Aerospace	48	Sears	12
Brit Telecom	17	TI	42
Brown (J)	3	Tesco	30
Burton Ord	32	Thorn EMI	35
Cadburys	17	Trust Houses	22
Charter Cons.	22	Turner Newall	18
Comm Union	28	Unilever	120
Courtaulds	26	Vickers	40
Distillers	52	Wellcome	19
FNFC.	15	**Property**	
Gen Accident	75	Brit Land	24
Gen Electric	17	Land Secs.	30
Glaxo	100	MEPC	32
Grand Met	34	Peachey	20
GUS 'A'	75	Samuel Props	18
Guardian	75	**Oils**	
GKN	32	Brit. Oil & Min.	2½
Hanson Tst	16	Brit Petroleum	48
Hawker Sidd	52	Burmah Oil	30
ICI	50	Charterhall	3
'Imps'	28	Premier	3½
Jaguar	27	Shell	55
Ladbroke	32	Tricentrol	15
Legal & Gen	79	Ultramar	18
Lex Service	38	**Mines**	
Lloyds Bank	55	Cons Gold	40
Lucas Inds	60	Lonrho	25
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Grain trader attacks farm policies

BY TIM DICKSON

A BLISTERING attack on governments which distort trade in agriculture was launched yesterday by the head of one of the world's largest grain trading companies.

Mr Michel Fribourg, chairman of the New York-based Continental Grain Company, said that the current crisis in agriculture was not "a 1986 phenomenon" but stemmed from "misguided policies and actions undertaken over the last 40 years."

Confusion in the cereal market

BY JOHN BUCKLEY

Brazil takes tough line on coffee sales

By Ann Charters

COFFEE exporters yesterday welcomed the Brazilian Coffee Institute's decision to canrel contracts with coffee roasters and to suspend green coffee exports for the rest of this month as a sign of a more aggressive stance over sales.

Exporters bave been worried that folling sales in recent weeks could harm Brazil's market share.

Brazil's official price for coffee bas been well above the international market level in recent months, which left importers disinterested in closing sales. Exports of coffee which were expected to move at 1.2m bags a month, have fallen off, and so for exports have totolled only 4.8m bags.

The IBC decision was hased in part on a lower estimate of the 1985-86 crop, revised down from 32.6m bags to 29m bags, with stocks now put at 15.6m bogs, 4m bags lower than originally announred. Tbis means that Brazil may not be willin gto sell the 14m bags it had planned to sbip this calendar year.

With domestic consumption lncreasing and with winter approaching in June, when frost could affect the 1986-87 coffee crop, the IBC sees no reason to sell now. According to the trade, Brazilian arabica coffees will still be in strong demand in September, after the Central American milds have hit the market and roasters need the flavourful Brazilian hean to maintain their blends. With Brazil's trade surplus through April at $3.77bn there is no government pressure for coffee sales to bring ln foreign exchange.

Rubber talks to end in deadlock

BY WILLIAM DULLFORCE

RUBBER exporting aod importing countries bave failed to agree on a new International Natural Rubber Agreement after three weeks of negotiations in Geneva.

They are expected to break off the talks today and to set a date for a new rosnd of negotiations in the autumn. That round will offer the last chance of saving one of the few remaining international commodity agreements worked out uoder the aegis of the United Nations Conference on Trade and Development.

The present Inra does not expire until the end of September 1987 but exporters poioted out that there will he no time for governments to ratify a successor agreement, lf negotiations continue beyond next October.

Key lssues remaining are the prire level and structure to be applied in the new agreement: the prire adjustment mechanism; and the financing of the buffer stock.

Mr Manaspas Xuto of Thailand, the chairman of the conference, this week proposed that the present price mechaoism and reference price simply be transferred to the new agreement.

His attempt to find a compromise was unacceptable to the exporting countries, which hove been arguing that the reference price in the new agreement must take into account rises in production costs and be high enough to encourage investments in new plantings. The referenre price determines the price levels et wbich the buffer stock manager can intervene hy huylog or selling on tha market.

Exportero have asked for a reference price of 265 Malaysian/Singapore cents a kilo, about 30 per cent higher thon the current reference price. They have said for the past three weeks that the prire was negotiable and Mr Ahmed Farouk, their spokesmon, has stressed that produrers were ready to be flexible.

Consumers have, bowever, nct hudged from their position that market trends shoold be the deciding factor on the rubber price.

Mr Xuto is expected to sum up today the progress that has been made in agreeing on the wording of a new Inra at a plenary sesslon which should set a date for the resumption of negotiotions.

Banks seek tin settlement

BY ANDREW GOWERS

ELEVEN creditor banks of the International Tin Council have launched a final attempt to settle outstanding claims from the tin crisis—amounting to more than £200m—without resorting to legol action against individual ITC member governments.

The banks, led by Hambros of the UK, bave written to the 22 member governments via Mr Peter Lai, the ITC chairman, soggesting "discussions" on their claims.

"While the banks are prepared to take legal action, they believe it ls in the best lnterests nf all parties concernad that tbe matter he settled in a friendly and constructive fashion," they said in a statement.

The mova is an attempt to put pressure on the ITC ahead of its next meeting on May 28, and coincides with steps by member companies of the London Metal Exchange to coordinate their own efforts to recover money lost as a result of the council's default in the tin market last October.

The ITC bas no funds left to settle outstanding claims, since Standard Chartered Bank and two LME brokers, Maolaine, Wotson and Lazmet, were paid off last month. That means that any future lawsuits will have to be directed et individual governments, which have consistently refused to accept liablity for the ITC's debts and are likely to claim sovereign immunity.

Hambros said yesterday lhat individual banks were reviewing their position on legal action and co-ordinating much of the preparatory legal work with one law firm. However, it added: "The legal route is long and expensive. The banks felt we ought to have one more stab (at negotiations)."

At the LME, 11 aggrieved metal brokers have banded together to consider legal action against ITC member governments. They are also plonning to appoint an international public relations agency to mount a campaign aimed at persuading governments to pay up.

LONDON MARKETS

Sydney tin smelter to close

World sugar demand estimate

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar up in thin trading

The dollar finished towards its best level of the day, continuing its recent bullish trend. However volume started to thin out ahead of the long weekend in the US and UK. News of a 0.5 per cent fall in US durable goods orders was much worse than expectations of a figure showing a 0.5 per cent rise and this depressed the dollar for a while.

Closer scrutiny showed that non-defence durable goods orders had in fact risen by 2.1 per cent in April, allowing the dollar to resume its recent upward path. It closed at DM 2.2790 against the D-mark, up from DM 2.2420 and SFr 1.8905 from SFr 1.8645. It was higher against the French franc at FFr 7.2575 from FFr 7.1425 but its improvement against the yen was more restrained at Y169.25 compared with Y168.70. On Bank of England figures, the dollar's exchange rate index rose from 115.4 to 116.4.

It was difficult to decide how deeply the dollar's new found attraction ran with those less than optimistic pointing out that if based on an economic upturn, then the signs so far were somewhat tenuous. However a relative silence from US officials and Japan's continued insistence on deterring another dollar rise might be sufficient to keep the dollar somewhere close to its recent trading range, so coming closer to achieving the G5 desire for currency stability.

STERLING — Trading range against the dollar in 1986 is 1.5555 to 1.3770. April average 1.4988. Exchange rate index closed at 76.0, after opening at 76.4 and compared with 76.4 on Wednesday. The six months ago figure was 80.1.

Sterling fell to close below $1.50 for the first time in five weeks but its performance against major European currencies was more respectable, showing little initial reaction to a half point cut in base rates. It fell to $1.4930 from $1.5170 but rose to DM 3.4020 compared with DM 3.40. Elsewhere it slipped to SFr 2.8225 from SFr 2.83 and Y252.75 from Y256.0. It was unchanged against the French franc at FFr 10.8350.

D-MARK — Trading range against the dollar in 1986 is 2.4710 to 2.7640. April average 2.2723. Exchange rate index 133.8 against 120.5 six months ago.

The D-mark held its own against the dollar in Frankfurt yesterday with the US unit depressed by a surprise fall in US durable goods orders. The dollar's later recovery came after the close of business in Frankfurt. It closed at DM 2.2665 up from DM 2.2450 on Wednesday but little changed from an earlier fixing level of DM 2.2651.

JAPANESE YEN — Trading range against the dollar in 1986 is 202.70 to 161.65. April average 175.05. Exchange rate index 204.4 against 156.8 six months ago.

The yen finished above the day's lows in Tokyo yesterday as the dollar's recovery paused for breath. Trading became confined to a relatively narrow range with the dollar finishing at Y169.65 against Y169.55 in New York and Y169.05 in Tokyo on Wednesday. It did break through the Y170 level briefly but there was little follow through demand as the market showed further signs of acquiescing to central banks' desire for stability. There was no immediate evidence of any intervention by the Bank of Japan. Elsewhere the D-mark fell to Y74.93 from Y75.42.

£ IN NEW YORK

Latest	May 22	Prev. close
£ Spot	$1.4925-1.4935	$1.5090-1.5100
1 month	0.41-0.38pm	0.46-0.44pm
3 months	1.16-1.13pm	1.33-1.30pm
12 months	3.20-3.12pm	3.46-3.39pm

Forward premiums and discounts apply to the U.S. dollar.

POUND SPOT—FORWARD AGAINST POUND

May 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4900-1.5090	1.4925-1.4935	0.43-0.40c pm	3.34	1.18-1.14pm	3.11
Canada	2.0335-2.0596	2.0335-2.0365	0.37-0.27c pm	1.89	0.83-0.79pm	1.68
Nethlnd.	3.81¾-3.85	3.82-3.83	1½-1¼c pm	4.31	4¼-4pm	4.31
Belgium	69.26-69.82	69.30-69.40	18-13c pm	2.68	47-38pm	2.45
Denmark	12.57¼-12.64¼	12.59¼-12.60¼	3⅞-2¾ore pm	3.25	9¼-8pm	2.73
Ireland	1.1190-1.1230	1.1205-1.1215	0.18-par p pm	−0.53	0.15pm-.05d	−0.36
W. Ger.	3.39¾-3.41¾	3.39¾-3.40¾	1⅞-1⅝pf pm	6.17	4⅞-4⅝pm	5.59
Portugal	226.00-229.06	225.00-228.22	80-315c dis	−10.41	230-845dis	−8.45
Spain	216.03-217.08	216.03-216.39	30-75c dis	−2.91	105-220dis	−3.00
Italy	2316½-2344½	2330-2331	2-6lire dis	−2.05	7-14 dis	−1.80
Norway	11.45¾-11.55¼	11.45¼-11.46¼	3½-4½ore dis	−4.16	10¼-11¼dis	−3.75
France	10.82-10.89½	10.83-10.84	3¼-2¾c pm	3.18	8¼-7¾pm	3.09
Sweden	10.83¾-10.90	10.83¾-10.84¾	¼-1¼ore dis	−1.02	1½-2½dis	−0.73
Japan	252¼-256	252¼-253¼	1.24-1.10y pm	6.55	3.42-3.28pm	5.31
Austria	23.93-24.00	23.94-23.98	11¾-10¼gro pm	6.50	30½-27½pm	4.84
Switz.	2.81½-2.83¾	2.81¾-2.82¾	1½-1¼c pm	6.84	4-3¾pm	5.49

Belgian rate is for convertible francs. Financial franc 69.75-69.85. Six-month forward dollar 2.09-2.04c pm. 12-month 3.35-3.25c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

May 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4900-1.5090	1.4925-1.4935	0.43-0.40c pm	3.34	1.18-1.14pm	3.11
Ireland†	1.3335-1.3465	1.3355-1.3365	0.39-0.31c pm	3.13	1.05-0.95pm	2.83
Canada	1.3635-1.3655	1.3635-1.3645	0.16-0.19c dis	−1.54	0.48-0.53dis	−1.48
Nethlnd.	2.5400-2.5640	2.5620-2.5630	0.18-0.14c pm	0.75	0.77-0.72pm	1.77
Belgium	46.06-46.60	46.40-46.50	2-4c dis	−0.78	6-10dis	−0.69
Denmark	8.38-8.44	8.43½-8.44	par-½ore dis	−0.36	½-1½dis	−0.42
W. Ger.	2.2580-2.2795	2.2785-2.2795	0.50-0.47pf pm	2.57	1.40-1.35pm	2.43
Portugal	151-152	151½-152	100-250c dis	−13.91	275-675dis	−12.68
Spain	143.30-144.70	144.40-144.50	65-95c dis	−6.67	165-195dis	−5.00
Italy	1549-1562	1660½-1661½	6-8lire dis	−5.41	17½-21dis	−4.96
Norway	7.64¼-7.68	7.67½-7.68	4½-5½ore dis	−7.73	13-13½dis	−6.88
France	7.19¼-7.26	7.25½-7.26	0.05-0.20c dis	−0.21	0.20-0.45dis	−0.18
Sweden	7.21½-7.27	7.26-7.26½	2⅝-2¾ore dis	−4.25	6⅞-7¼dis	−3.91
Japan	168.75-170.00	169.20-169.30	0.34-0.29y pm	2.23	0.96-0.91pm	2.21
Austria	15.87¼-16.02½	16.01½-16.02½	3-2gro pm	1.88	8-6pm	1.75
Switz.	1.8720-1.8910	1.8900-1.8910	0.39-0.34c pm	2.33	1.15-1.10pm	2.39

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 46.70-46.80.

EXCHANGE CROSS RATES

May 22	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.493	3.403	252.8	10.84	2.823	3.826	2331.	2.036	69.35
$	0.670	1.	2.279	169.3	7.258	1.891	2.563	1561.	1.363	46.45
DM	0.294	0.439	1.	74.29	3.184	0.830	1.124	684.9	0.598	20.38
YEN	3.956	5.907	13.46	1000.	42.87	11.17	15.13	9221.	8.051	274.4
F Fr.	0.923	1.378	3.140	233.3	10.	2.606	3.530	2151.	1.878	64.01
S Fr.	0.354	0.529	1.205	89.55	3.839	1.	1.355	825.7	0.721	24.57
H Fl.	0.261	0.390	0.890	66.09	2.833	0.738	1.	609.3	0.532	18.13
Lira	0.429	0.641	1.460	108.5	4.649	1.211	1.641	1000.	0.873	29.76
C $	0.491	0.734	1.672	124.2	5.324	1.387	1.880	1145.	1.	34.08
B Fr.	1.442	2.153	4.906	364.5	15.62	4.070	5.516	3360.	2.934	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

May 9	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
B.Fr.(Fin)	8-8¼	8-8¼	7¾-8	7¾-8	7⅝-7⅞	7½-7¾
B.Fr.(Con)	7¾-8¼	8-8⅛	7⅞-8¼	7⅞-8	7⅝-7⅞	7½-7¾
Yen	4⅝-4⅞	5⅛-5⅜	6-5⅛	4⅞-4⅞	4⅞-4⅞	4⅞-4⅞
D. Krone	8-8½	7¾-8¼	8-8⅛	7¾-8¼	7¾-8¼	8-8⅛
Asian $ (Sng)	6⅞-7⅛	6⅞-7⅛	6⅞-7⅛	6⅞-7⅛	7-7⅛	7⅛-7⅜

Long-term Eurodollars: two years 7⅞-7⅞ per cent; three years 8¼-8½ per cent; four years 8½-8¾ per cent; five years 8¾-9 per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

STERLING INDEX

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May 22	% change from central rate	% change adjusted for divergence	Divergence limit %
German D-mark	2.13834	2.15416	+0.74	+0.74	±1.1202
French Franc	6.96280	6.85825	−1.50	−1.50	±1.3701
Dutch Guilder	2.40935	2.42342	+0.58	+0.58	±1.5081
Irish Punt	0.772956	0.767682	−0.74	−0.74	±1.6689
Italian Lira	1496.21	1477.41	−1.26	−1.26	±4.0788

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FINANCIAL FUTURES

US bonds retreat

US bonds gave up early gains in the London International Financial Futures Exchange yesterday to finish below Wednesday's closing levels. Trading became a little unsettled towards the end as the market seemed uncertain about the bonds' apparent lack of direction.

The June price opened at 96-23 up from 96-12 and rose to a high of 96-26 helped by Japanese interest in cash bonds. However, most buyers quickly backed off after this, possibly heralding a bout of profit taking but there was sufficient uncertainty to allow values to fall to a low of 96-15.

A surprise fall in US durable goods orders in April of 0.5 per cent compared with expectations of a 0.5 per cent rise pushed prices to a low of 95-27. However initial analysis stripped out the defence element to show a non defence rise of 2.1 per cent. This helped values back to 96-03 at the close but there was a good deal of uncertainty left in the market. Turnover remained very respectable, however, with the June contract trading around 9,000 lots.

Three-month sterling deposits showed a small initial rise but decided to ignore a firmer US bonds market and UK gilts as well as a softer tone in cash rates in favour of a two and a half point drop by sterling against the dollar.

Gilt prices were also firmer at the start and after easing from 120-08 at the start to 124-30 for June delivery the price came back to a high of 125-10. However, late selling by clearing banks saw values drop quite sharply to finish at 124-20.

LIFFE LONG GILT FUTURES OPTIONS

LIFFE US TREASURY BOND FUTURES OPTIONS

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

PHILADELPHIA SE £/$ OPTIONS

LIFFE—EURODOLLAR OPTIONS

LONDON

CHICAGO

CURRENCY FUTURES

	Latest	High	Low	Prev
June	1.4897	1.5043	1.4980	1.5127
Sept	1.4790	—	—	1.5020
Dec	1.4710	—	—	1.4940

Est. Volume 141 (20)
Previous day's open int. 1,989 (1,969)

MONEY MARKETS

NatWest base rate cut to 10%

National Westminster Bank cut its base rate to 10 per cent from 10½ per cent yesterday afternoon. There had been revived speculation earlier in the day as interbank rates shed 1/16 of a point amid a relaxed supply of short term credit. However three-month money finished unchanged at 10⅛-10¼ per cent before the announcement as sterling lost ground. Rates for today's start are quoted at 10-10⅛ per cent for three months.

Discount houses had hoped to test the water earlier in the day by offering bills below the Bank's dealing rates but a surplus effectively ruled this out. Overnight interbank money touched 10⅞ per cent before finishing at 8 per cent.

The Bank of England forecast a surplus of around £100m with factors affecting the market including maturing assistance and a take-up of Treasury bills together draining £332m and a rise in the note circulation of £60m. These were more than offset by Exchequer transactions which added £390m and banks' balances brought forward £110m above target. The forecast was revised to a flat position and the Bank gave no assistance in the morning or the afternoon.

In Frankfurt call money was around 4 per cent, compared with 3.95 per cent on Wednesday, as credit conditions remained comfortable, in spite of a drain of liquidity of DM 4.2bn. A 34-day securities repurchase agreement with the Bundesbank provided DM 5.9bn, but this failed to fully replace the DM 10.1bn flowing out of the market, as an earlier agreement expired. As expected the Bundesbank council did not change credit policies at yesterday's meeting, leaving the West German discount rate at 3.5 per cent and the Lombard rate at 5.5 per cent.

In Paris the Bank of France announced details of its weekly Treasury bill tender due on next Tuesday. This will comprise FFr 5bn of Treasury bills eligible for re-discount, FFr 1bn of 13-week bills, FFr 2bn of two-year bills and FFr 2bn of five-year bills.

UK clearing bank base lending rate 10-10½ per cent from May 22

NEW YORK RATES

(Lunchtime)

Prime rate	8½
Broker loan rate	7¾
Fed funds	6 11/16
Fed funds at intervention	—

Treasury Bills & Bonds

One month	6.58
Two month	6.10
Three month	6.38
Six month	6.50
One year	6.72
Two year	7.16
Three year	7.42
Four year	7.62
Five year	7.75
Seven year	7.83
10 year	7.88
30 year	7.51

FT LONDON INTERBANK FIXING

(11.00 a.m. May 21)

Three months US dollars		Six months US dollars	
bid 6 11/16	Offer 7 1/16	bid 6 11/16	Offer 7 1/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

MONEY RATES

May 29	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard In'v'tin
	3.90-4.10	4.50-4.65	4.50-4.65	4.50-4.65	4.50-4.65	5.0
Frankfurt	7¼	7 11/16-7 13/16	7⅛-7¼	7 1/16-7 7/16	6⅞-7	7¼
Paris	⅞-1⅛	4⅝-4¾	—	4⅜-4 5/16	—	—
Zurich	0.8¼	6½-6 9/16	—	0¾-5⅞	—	—
Amsterdam	4.03125	4.50375	—	4.65620	—	—
Tokyo	13-13⅛	13-13⅛	—	18½-12⅛	—	—
Milan	6.70	7⅞-8	—	7⅞-8	—	—
Brussels	10⅝-10⅞	10½-10¾	10⅝-10⅝	10 5/16-10 5/16	8¾-10	—

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£30,000,000
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The Bank of Tokyo, Ltd.
(Incorporated with limited liability in Japan)

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the three months period 21st May, 1986 to 21st August, 1986 has been fixed at 10⅝ per cent. per annum. Coupons No. 11 will therefore be payable on 21st August, 1986 at £1,323.29 per coupon from Notes of £50,000 nominal and £132.33 per coupon from Notes of £5,000 nominal.

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Agent Bank

BARCLAYS UNI-AMERICAN GROWTH TRUST.

Copies of a Half yearly Report to 26th March 1986 with an Explanatory Memorandum are now available to shareholders from:

Managers: Barclays Unicorn International (Channel Islands) Limited, P.O. Box 152, St. Helier, Jersey, Channel Islands.

BARCLAYS

$WORLD VALUE OF THE DOLLAR

BANK OF AMERICA NT & SA, ECONOMICS DEPARTMENT, LONDON

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, May 21, 1986. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

Bank of America, Economics Dept., London
Eurodollar Libor as of May 21 at 11.00 a.m.
3 months: 7 1/16   6 months: 7⅛

ECU=$US.957904   SDR1=$US1.15689
Sibor as of May 21 at 11.00 a.m.
3 months: 7⅛   6 months: 7⅛

COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani (o)	50.60	Greece	Drachma	140.90	Papua New Guinea	Kina	0.9407
Albania	Lek	6.668	Greenland	Danish Krone	8.321	Paraguay	Guarani (o.c.)	240.00
Algeria	Dinar	4.90	Grenada	E. Caribbean $	2.70		Guarani (d)	715.00
Andorra	French Franc	7.158	Guadaloupe	Franc	7.158	Peru	Intl. (o)	13.94

LONDON SHARE SERVICE

BRITISH FUNDS

1986 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99 13/32	98 1/4	Treas 8 1/4pc 1984-86‡‡	99 25/32	+ 1/32	8.52	10.45
102 3/16	100 1/2	Exch. 14pc 1986	101 13/16	.....	13.75	9.53
98 1/4	94 7/8	Exch. 2 1/2pc 1986	98 1/2xd	.....	2.54	5.83
102 13/16	100 3/8	Exch. 13 1/4pc 1987	102 5/16	.....	12.95	9.51
100 7/8	97 5/16	Treas 10 1/4pcCv '87	100 9/16	.....	10.19	9.35
96 7/8	92 11/16	Exch 2 1/2pc 1987	96 7/8	.....	2.58	6.77
101 1/4	97 7/8	Exch. 10 1/2pc 1987	100 7/8	.....	10.41	9.22
98 3/8	93 3/4	Funding 6 1/2pc '85-87‡‡	98 1/2	− 1/32	6.60	8.17
101 1/4	96 13/16	Treas. 10pc 1987	100 13/16xd	.....	9.92	9.20
96 5/16	90 7/8	Treas 3pc 1987	96 5/16	+ 1/4	3.11	6.16
104 1/2	99 3/4	Treas. 12pc 1987	103 7/8	.....	11.55	9.03
99 3/4	92 13/16	Treas 7 3/4pc 1985-88‡‡	99 3/16	.....	7.81	8.25
104	96 1/4	Exch 10 1/2pc '88	102 13/16	− 1/8	10.20	8.83
102 3/4	95 7/8	Treas 9 3/4pc Cv '88	101 5/8xd	− 1/8	9.59	8.88
93 1/4	86 3/4	Transport 3pc '78-88	93 3/16	− 1/16	3.21	6.44
102 1/2	93 15/16	Treas. 9 1/2pc '88	101 3/16	.....	9.39	8.93
107 5/16	98 5/16	Treas 11 1/2pc 1989	106 3/16	− 1/8	10.83	8.89
103 1/2	93 3/4	Treas 9 1/2pc Cnv. '89	102 1/4	− 1/4	9.30	8.64
91 7/8	82 7/16	Treas 3pc 1989	91 7/8	.....	3.26	6.02
105 1/16	95 3/16	Treas 10 1/2pc 1989	104 1/4xd	− 1/16	10.07	8.89
104 3/16	94 1/8	Exch 10pc 1989	102 15/16	− 1/16	9.71	8.92
107 3/16	97	Exch 11pc 1989	106 1/16	− 1/16	10.37	8.84
93 3/16	84 1/2	Treas 5pc 1986-89	93 3/16	.....	5.34	7.16
110 1/16	96 3/4	Exch 10 1/4pcCv '89	108 1/2	.....	9.45	7.43
114 1/16	103 3/16	Treas 13pc 1990‡‡	112 7/8	− 3/16	11.52	8.78
108 1/4	97 1/4	Exch 11pc 1990‡‡	106 7/8	− 1/16	10.29	8.78
113 3/4	101 13/16	Exch. 12 1/2pc 1990	111 7/8	− 3/16	11.17	8.76
89 5/16	79 3/4	Treas. 3pc 1990	89 5/16	+ 1/16	3.36	6.07
100 5/16	89 1/4	Treas 8 1/4pc 1987-90‡‡	99 11/16xd	− 1/16	8.26	8.31
106 1/16	93	Treas. 10pcCv 1990	104 11/16	− 3/16	9.55	8.69
85 11/16	76 1/2	Exch 2 1/2pc 1990	85 11/16xd	+ 1/8	C9.1U6.M	6.10
112 1/16	99 5/16	Treas 11 3/4pc 1991	110 7/8	− 3/16	10.60	8.83

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

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INDUSTRIALS—Continued

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

PROPERTY

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible] ... other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Albany Inv 20p	123xd	.....	Fin. 13% 97/02	£123¾	.....
Craig & Rose £1	£13	.....	Arnotts	343xd	.....
Finlay Pkg. 5p	43xd	−1	CPI Hldgs	58	.....
Holt (Jos) 25p	810	.....	Carroll Inds.	167	−4
IoM Stm. £1	87	.....	Dublin Gas	53	.....
			Hall (R. & H.)	72	.....
IRISH			Heiton Hldgs.	32	−3
Fund 11¼% 1988	£103⅝	.....	Irish Ropes	180	.....
Nat. 9¾% 84/89	£101	.....	Unidare	190	.....

" Recent Issues " and " Rights " Page 42
(International Edition Page 46)

LONDON STOCK EXCHANGE

MARKET REPORT

Account Dealing Dates
Option

*First Dealings	Declarations	Last Dealings	Account Day
May 12	May 29	May 30	June 9
June 2	June 12	June 13	June 23
June 1	June 26	June 27	July 7

* "New-time" dealings may take place from 8.30 am two business days earlier.

Equities extend rally to fourth day
Strong demand for Stores

The after-hours' announcement by NatWest of a half-percentage point reduction to 10 per cent in its base rate came too late to have any substantial impact on London stock markets yesterday.

Earlier, revived interest rate optimism helped equities improve for the fourth consecutive session, but the volume of business waned considerably as the extended trading Account neared the end of its second week.

Share prices opened easier in the wake of Wall Street's overnight reversal and a glum quarterly review from the NIESR. However, the mood soon changed as news of easier money market rates—the key three-month interbank rate slipped to 10⅛ per cent—fuelled talk of an early cut in clearing bank base rates.

Investors, encouraged by the prospect of cheaper money, reappeared for selected blue chip industrials, while the overall tone was considerably boosted by yet another speculative flurry in the Stores sector. Here, the possibility of an increased Dixons' bid for Woolworth and confirmation of the £150m furniture deal whereby Harris Queensway is to acquire the "Times" furnishing and Home Charm businesses from Gussies prompted good buying of all concerned.

Elsewhere, Index constituents Beecham and GKN showed to good advantage, the former responding afresh to a Merrill Lynch "buy" circular and the latter rising following a seminar at stockbroker James Capel. The Financial Times Ordinary share index quickly erased an initial fall of 1.5 to stand 6.4 higher at 1.00 pm before closing 3.8 better at 1,316.3.

The base rate news induced a minor rally in Gilt-edged stocks. Conventional issues opened easier in sympathy with the overnight reaction in US Bonds ahead of the money supply figures and yesterday's early weakness in sterling. Thereafter, trade was extremely thin with business deterred by the Authorities' continued reluctance to reactivate the long tap. Having been ½ easier in places, closing prices were around ⅛ cheaper on balance. Elsewhere, index-linked stocks encountered good buying and gains here ranged to ⅝.

Equity and Law up

Insurances were featured by a fresh speculative flurry in Equity and Law which closed 10 to the good at 270p as bid hopes revived. Other Life issues to make progress included London and Manchester, 10 better at 735p, and Legal and General, 7 dearer at 754p.

Clearing banks remained in the doldrums, still overshadowed by NatWest's record cash call. Midland cheapened 5 at 543p and Lloyds softened a couple of pence at 570p. NatWest were unaltered at 740p; the base rate reduction to 10 per cent had no impact on late sentiment.

Consulting services group P.E. International staged a quiet market debut; the shares, offered for sale at a minimum tender price of 165p opened at 170p and edged forward to 178p prior to closing at 175p. USM-newcomer Savage settled at 105p compared with the placing price of 100p.

Dealers reported relatively subdued conditions among leading Breweries. Further consideration of the first-half figures lifted Bass a few pence more to 795p, while talk of a broker's circular left Scottish and Newcastle 5 dearer at 192p. In sharp contrast, interim results from Greenall Whitley were deemed disappointing and the price dipped 7 to 173p. Regional Breweries remained irregular. Fresh takeover speculation lifted Buckleys another 5 to 95p, the annual results are expected shortly.

Leading Buildings improved for the fourth consecutive session, boosted by reports that the recovery in the UK construction industry is continuing. Blue Circle hardened 5 to 675p and RMC a couple of pence to 644p, while BPB Industries firmed 4 to 482p. Costain were also 4 dearer at 536p and Redland a penny better at 424p. Elsewhere, Robert M. Douglas gained 7 to 100p following speculative buying, but Higgs and Hill slipped 15 to 555p on lack of interest. Occasional buying in restricted markets left J. Jarvis 10 higher at 340p and Derek Crouch 8 up at 136p. Tarriff Corporation added 3 to 148p and Helical Bar firmed 2 to 194p.

Significant movements in Chemicals were few, but Thurgar Bardex found support and, in a limited market, firmed 4 to 47p. On the other hand, comment on the Monopolies Commission investigation into the pest control industry left Rentokil a couple of pence cheaper at 138p. British Benzol hardened a penny to 86p ahead of the annual results due shortly.

Stores lively

Early interest among Retailers centred on the Harris Queensway/Great Universal situation; confirmation that the former had concluded a deal to take a controlling interest in GUS's Times Furnishing retail chain left Harris a couple of pence to the good at 270p, after 282p, and GUS "A" a fraction firmer at £10⅛. Elsewhere, the Woolworth/Dixons takeover situation reached its first closing date; Woolworth settled 35 to the good at 855p as unwelcome suitors Dixons, 6 to the good at 346p, announced conditional agreement with Granada for the latter's purchase of Woolworth's Comet electrical retail chain.

Hopes of a full-scale offer from Ratners stimulated fresh interest in H. Samuel "A," finally 4 to the good at 135p; Ratners hardened a couple of pence to 161p. Revived speculative support lifted S. Casket 5 to 48p, and House of Lerose a similar amount to the good at 147p. Dunhill improved 12 to 465p awaiting next Tuesday's preliminary figures.

Plessey's preliminary profits were deemed slightly disappointing—recent optimistic forecasts had ranged to £172m—and the shares reacted from an initial firm level of 224p to close a net 4 easier on balance at 218p. British Telecom, meanwhile, advanced to 232p before closing only a couple of pence better at 230p as investors showed an increased interest ahead of the annual results scheduled for June 19. Elsewhere, Press reports that the high-flying company is on the verge of entering the white goods market took Amstrad up 17 more to 564p, while Telephone Rentals jumped 20 to 240p, after 245p, on strong rumours of a possible bid from Philips Lamps. FKI, still reflecting the purchase of Thorn EMI's engineering and components division, added 5½ more at 83½p and Alphameric gained 12 to 147p. MicroFocus, on the other hand, plummeted 40 to 180p on news of the annual deficit.

Selected Engineering were favoured in the wake of an investment seminar at stockbrokers James Capel. GKN rose 4 afresh to 337p, after 340p, and Hawker added 12 to 577p. Old takeover favourite Porter Chadborn revived with a rise of 23 at 298p and Christy Hunt put on 3 more to 65p after 70p, also on bid speculation. F. S. Ratcliffe jumped 40 more for a two-day rise of 80 to 315p on news of a large shareholding in the company changing hands. Deritend Stamping rose 25 to 258p in response to the bumper annual results and Cronite firmed 7 to 64p after further consideration of the impressive interim figures. Banro Industries added 12 at 175p, but sporadic offerings in an unwilling market left Hopkinsons 15 down at 230p.

The Food sector displayed several bright features. Renewed demand ahead of next Wednesday's annual results lifted Tesco 10 to 378p, while United Biscuits revived with a gain of 6 at 246p. S. & W. Berisford continued to respond to the interim figures with a further improvement of 7 at 219p and Northern Foods firmed 4 to 272p. Elsewhere, William Morrison rose 14 to 218p following the chairman's confident statement at the annual meeting, while Hillards gained 10 to 255p on revived bid hopes. Ladbroke continued to attract buyers on re-rating suggestions and firmed 4 afresh to 340p, after 342p, but profit-taking clipped 5 from recently-firm Prince of Wales Hotels at 77p.

Beecham feature

Beecham were outstanding among the miscellaneous industrial leaders, rising 19 more to 395p on a combination of domestic and US buying in the wake of a Merrill Lynch "buy" circular. Confirmation of the group's disposal of part of SCM's assets for around £105m cash left Hanson Trust 4 up at 173p. BTR found support and touched 316p before reacting late to close only a few pence higher at 311p. Glaxo, however, eased on Zantac price worries and closed at 965p, down 5. Elsewhere, RFD jumped 15 to 215p on news of the increased offer from Wardle Storeys, 8 off at 335p. Bestobell continued to reflect takeover hopes with a rise of 12 at 424p, while improvements of 10 and 20 respectively were seen in Smiths Industries, 271p, and Pacer Systems, 210p. Comment on the interim results helped Avon Rubber advance 20 to 318p and Widney revived with a speculative improvement of 4 at 44p. SI rose 1½ more to 31p on Press comment, but Benloa fell 4½ to 28p in reaction to news of the sale of its stake in Tranwoods. A. and P. Appledore lost 20 more to 215p with sentiment here still depressed by the recent dismal results. The liquidation of speculative positions left Beatson Clark 23 down at 210p and Hestair 10 off at 158p. High Point Services closed 30 lower at 250p.

Interest in the Property leaders revived strongly. Land Securities, additionally boosted by traded option activity, rose 7 to 322p, while MEPC gained 10 to 353p. Hammerson A hardened 5 to 430p and Slough Estates gained a penny at 165p. Revived demand pending the outcome of bid discussions left Samuel Properties 5 better at 240p. Elsewhere, Country Gentlemen's Association jumped 5 points to £21 awaiting further developments in the battle for control of the company.

Courtaulds continued to attract buying interest ahead of next Thursday's annual figures and closed a further 5 up at 282p, extending the gain over the past three days to 19. Dawson International put on 4 to 244p in sympathy. Dealings in Don Brothers Buist were suspended at 130p pending an announcement regarding a bid approach. Elsewhere, Munton Brothers added 2 at 17½p following speculative demand.

Shell advance

Leading oils opened on an easier note, reflecting general lack of interest, but picked up later in the day as sterling lost ground against the dollar following the NatWest base-rate cut. Shell were the outstanding performer among the top-quality stocks and gradually improved throughout the session to close at a year's high of 797p, a net gain of 12, following favourable reports emanating from a meeting of oil sector analysts and company officials. BP rallied from an initial 568p to close unaltered on balance at 575p, while Ultramar settled 5 to the good at 173p. Among secondary issues, British Borneo hardened a shade to 345p in the wake of preliminary results. Firstland Oil & Gas held at 35p following acquisition news. Elsewhere, Berkeley Exploration eased 3 to 50p but North Sea and General extended their recent rally and picked up 2 more at 26p.

Overseas Traders included firm features in Harrisons Crosfield, 8 higher at 385p ahead of preliminary results due next Wednesday, and Polly Peck which advanced 5 to a 1986 high of 195p in front of the interim figures scheduled for May 30. Inchcape rose a further 7 to 360p—a two-day gain of 12—but Tozer Kemsley, bought up to 196p during the morning, ran back on profit-taking to close 3 easier on balance at 185p. James Finlay attracted good support late in the day and closed 5 better at 85p.

Mining markets remained extremely quiet, but managed to regain a measure of composure after the recent setback prompted by the South African attacks on targets in Zambia, Zimbabwe and Botswana. Sentiment in Golds improved from the outset when the Rand rallied against other currencies on bear closing. Covering of short positions in Gold shares saw prices edge higher, albeit in thin trading, with interest additionally stimulated by the gradual improvement in the bullion price which moved back above the $340 an ounce level to close a net $1.5 firmer at $341.

The Gold Mines index edged up 0.3 to 228.3.

Interest in Australians was largely centred on BHP which gave up 9 of the previous day's 15 rise on disappointment with news that the heavy buyer on Wednesday was revealed to be Equiticorp Tasman.

Traded Options

Demand for Traded Options remained at a relatively low ebb reflecting the uninspiring conditions prevailing among underlying securities. British Telecom recorded 1,214 calls and 449 puts while, similar volume was noted in Beecham positions. Total contracts transacted amounted to 12,674.

TRADITIONAL OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
May 19	June 6	Aug 28	Sept 8
June 9	June 20	Sept 11	Sept 22
June 23	July 4	Sept 25	Oct 6

For rate indications see end of Unit Trust Service

Call options were arranged in Hartwells, North Sea and General, Telephone Rentals, Sears, C. H. Industrials, Five Oaks, Amstrad, Sheraton Securities, NMC, SI, Clarfield Lawrence, Premier Oil, Pavion, Marks and Spencer, Nu-Swift, C. H. Bailey, Widney, Polly Peck, ASEA and Arlen. No puts or doubles were reported.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	20	81	31
Corpns. Dom. and Foreign Bonds	21	3	48
Industrials	309	235	947
Financial and Props.	94	91	391
Oils	18	11	91
Plantations	0	2	12
Mines	28	19	133
Others	78	30	104
Totals	568	452	1,757

FINANCIAL TIMES STOCK INDICES

HIGHS AND LOWS

S.E. ACTIVITY

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

FIXED INTEREST

YESTERDAY'S ACTIVE STOCKS

WEDNESDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 201,727

LONDON TRADED OPTIONS

RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (65)

NEW LOWS (18)

WORLD STOCK MARKETS

AUSTRIA

May 22	Price Sch.	+ or −
Credit'nst'lt pp.	9,360	−10
Goesser	3,400	−100
Interunfall	14,600	
Jungbunzlauer	18,700	−500
Laenderbank	3,250	−5
Perlmooser	725	−5
Steyr Daimler	178	−2
Veitscher Mag	11,000	

BELGIUM/LUXEMBOURG

May 22	Price Frs.	+ or −
B.B.L.	3,075	−25
Banq. Gen. Lux.	15,800	
Banq. Int.A.Lux.	10,800	
Bekaert	13,400	−400
Ciment CBR	4,060	−10
Cockerill	156	
Delhaize	19,100	−100
EBES	4,800	−10
Electrobel	15,675	[illegible]

CANADA

Indices

TORONTO	May 22	May 21	May 20	May 19	1986 High		1986 Low	
Metals & Minls	2,025.8*	2,025.3	2,046.8	closed	2,442.85	(21/3/86)	2,025.3	(21/5/86)
Composite	3,026.7*	3,027.5	3,038.5	closed	3,129.11	(18/4/86)	2,754.9	(17/2)
MONTREAL Portfolio	1,531.38*	1,531.85	1,537.91	closed	1,623.33	(16/4/86)	1,386.5	(22/1)

* Indicates pre-close figure

** Saturday May 17: Japan Nikkei 15,674.0 TSE 1,235.74.

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

LONDON

Chief price changes
(in pence unless otherwise indicated)

RISES

Tr 2% IL 1990	£107	+ ⅝
Avon Rubber	318	+20
Beecham	395	+19
Berisford (S&W)	219	+ 7
Casket (S)	48	+ 5
Coats Viyella	506	+10
Country Geot's	£21	+ 5
Dr Stamping	258	+25
Doug (Robert M)	100	+ 7
Dunhill	465	+12
Equity & Law	270	+10
Hillards	225	+10
Land Securities	322	+ 7
MEPC	353	+10
Morrison (Wm)	218	+14
Porter Chadburn	298	+23
RFD	215	+15
Ratcliffe (FS)	315	+40
Shell Transport	797	+12
Telephone Rent	240	+20
Tesco	378	+10
Woolworth	855	+35

FALLS

Benlox	28	− 4½
Greenall Whit	173	− 7
Micro Focus	190	−40
Plessey	218	− 4

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 49

EUROPEAN BOURSES

Dutch election result triggers buying

Continued from Page 50

Banks and insurers were mainly steady with UBS unchanged at SFr 5,600 while Crédit Suisse added SFr 5 to SFr 3,775.

Winterthur, however, took a small tumble with its SFr 50 decline to SFr 6,250 in reaction to the group's unchanged dividend.

Among financials, Adia continued to find buyers and finished SFr 125 higher to SFr 6,475 although Oerlikon-Bührle slipped SFr 10 to SFr 1,870.

Chemicals were stronger in line with the firmer dollar as Sandoz added SFr 300 to SFr 12,800. The group also announced expansion plans for Japan.

Among recent international favourites, Ciba-Geigy added SFr 30 to SFr 3,370 and Nestlé added SFr 100 to SFr 6,150.

The firmer dollar failed to excite the bond market as many institutional investors, reportedly flush with funds, began moving into short-term markets instead.

Paris was down in active technical trading and end-of-month liquidation leaving the bourse index down 2.3 per cent – its heaviest fall in over a year.

Concern was also evident over the outcome of the censure vote called by the opposition Socialists over the Government's plan to return to a majority electoral system. Many foreign, especially US, investors, are reportedly temporarily withdrawing from the market due to this uncertainty.

Cie Bancaire suffered one of the largest falls – 6.6 per cent with its FFr 90 drop to FFr 1,200 while Thomson CSF settled FFr 150 cheaper at FFr 3,450.

Moving against the trend were Moulinex FFr 2.20 ahead at FFr 93, Poclain FFr 1 higher at FFr 89, and Raffinage FFr 10.90 up at FFr 179.90.

BSN, which revealed plans to take over United Biscuit, fell FFr 85 to FFr 3,705.

Stockholm was encouraged by the Volvo results and the lower trend in domestic interest rates. The car group added SKr 5 to SKr 395 ex its SKr 8.50 dividend.

Madrid was lower in routine trading. Utilities led the decline with Catalana de Gas 10 percentage points down at 385 per cent of nominal value.

Prices at 3pm, May 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24	11½	AAR s	.44	2.0	20	441	21⅞	21½	21⅞	+⅛
30	21¾	ADT	.92	3.1		547	29⅜	28⅞	29⅜	+⅝
28½	11½	AFG s			18	308	25½	24¾	25¼	+½
25⅝	12¾	AGS			19	234	21⅜	20½	21¼	+½
15	9⅞	AMCA				15	13¼	13⅛	13¼	+¼
60⅜	37½	AMR			12	2433	57⅝	56⅛	57⅜	+1
27½	23¼	ANR pf	2.67	10.		2	25½	25½	25½	
16¾	11⅛	ARX	.71t	5.1	13	27	14¼	14	14	−¼
51⅜	32¾	ASA	2a	9.6		535	34¾	34¼	34½	+¼
18⅜	10½	AVX		2.3		269	14	13¾	13⅞	
32	22⅜	AZP	2.72	9.9	7	1138	27⅜	27⅛	27⅜	−½
91⅞	52½	AbtLab	1.68	1.9	22	1740	89⅞	86⅛	89¼	+3
44⅝	42¼	AbtLb wi				38	u44⅞	43⅝	44⅞	+1
31⅞	19⅝	AccoWd	.50	1.9	22	288	31⅛	30½	31⅛	+⅜
24¾	16	AcmeC	.40	3.9		86	13⅜	13	13¼	+⅛
9¼	7	AcmeE	.32b	3.9	20	1	8⅛	8⅛	8⅛	
20⅛	16⅞	AdaEx	1.90e	8.9		313	19⅞	19¾	18⅞	
28	15	AdmMl	.40	1.5	19	15	27¼	27	27¼	+½
20⅜	10¾	AdvSys	.83t	5.1	15	46	17	16⅜	16⅝	−⅜
32⅞	22⅝	AMD				4529	25⅛	24½	25⅜	
12⅝	8¼	Adobe n				70	9⅛	8⅞	8⅞	−¼
18⅝	14⅝	Adob pf	1.84	11.		77	16⅞	16¾	16⅝	−⅛
20¾	15¼	Adob pf	2.40	12.		34	19⅝	19⅛	19⅛	−¼
19⅝	8⅛	Advest	.12a	.6	14	377	19½	19	19	
68¼	42¼	AetnLf	2.64	4.3	11	5398	62⅛	59⅝	62	+2
57½	52⅛	AetL pf	4.26e	6.8		9	53⅝	53⅝	53⅝	
69¼	29	Ahmns	1.36	2.2	7	1827	63¼	62	63⅛	+1⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 49

مكتبة من الأصل

NYSE COMPOSITE PRICES

Continued from Page 48

12 Month High	Low	Stock	Div	Yld	P/E	Sls 100s	High	Low	Close	Ch'ge
		X Y Z								
72¼	45¾	Xerox	5	5.1	14	2506	58⅞	57⅞	58¼	−1
58¼	52¾	Xerox pf5.45		9.5		7544	57⅜	57	57¼	
29¾	20⅝	XTRA	.84	2.8		39	24⅞	24¾	24⅞	
17	13½	Yorkln n				404	14	13¾	13⅞	−⅛
37	26¼	ZaleCp 1.32		5.9		108	33⅞	33⅜	33¾	+½
13¼	3½	Zapata .03j				1747	4¼	4⅛	4⅛	
80	47¾	Zayre	.64	.8	24	608	76¼	75¾	76¼	+1
29⅞	16¼	ZenithE				1252	26¼	26⅛	26½	+⅛
36⅝	17⅞	ZenLbs .10r		.3	21	1276	32⅝	32	32¼	+¼
22⅜	14	Zero s	.39	1.5	19	7	19⅝	19⅝	19⅝	
45¾	32¼	Zurnin 1.32		3.2	15	142	41½	41⅛	41½	+¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Prices at 3pm, May 22

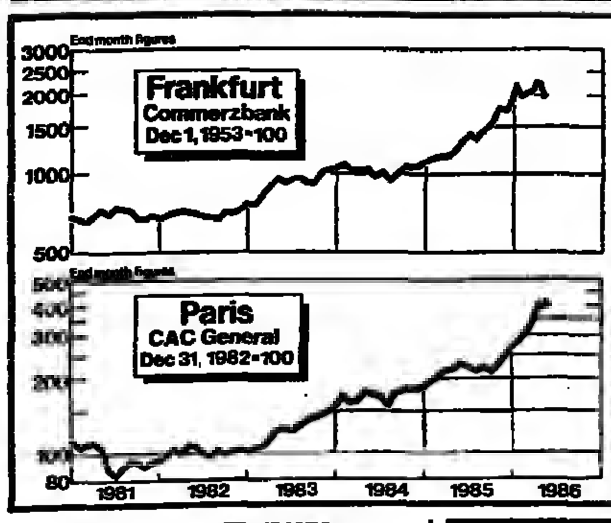
OVER-THE-COUNTER

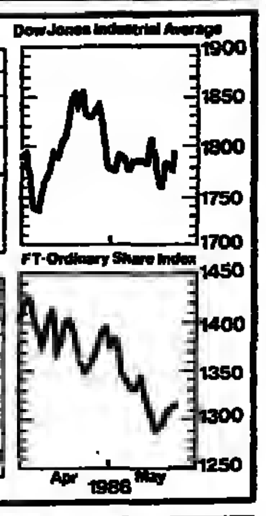
Nasdaq national market, 2.30pm prices

Continued on Page 47

FINANCIAL TIMES
WORLD STOCK MARKETS

KEY MARKET MONITORS





STOCK MARKET INDICES

	May 22	Previous	Year ago
NEW YORK			
DJ Industrials	1,799.85*	1,775.17	1,303.76
DJ Transport	793.42*	780.30	622.9
DJ Utilities	183.11*	181.15	161.98
S&P Composite	239.50*	235.45	188.56
LONDON			
FT Ord	1,316.3	1,312.5	1,010.2
FT-SE 100	1,598.8	1,591.9	1,333.8
FT-A All-share	786.71	783.64	640.34
FT-A 500	866.66	862.77	702.25
FT Gold mines	228.3	228.0	479.8
FT-A Long gilt	9.13	9.10	10.74
TOKYO			
Nikkei	15,917.33	15,808.14	12,673.60
Tokyo SE	1,253.20	1,243.00	995.59
AUSTRALIA			
All Ord.	1,174.6	1,172.3	888.2
Metals & Mins.	484.1	481.1	562.0
AUSTRIA			
Credit Aktien	122.33	122.76	95.03
BELGIUM			
Belgian SE	3,681.26	3,688.67	2,253.85
CANADA	May 22	Prev	Year ago
Toronto			
Metals & Minls	2,025.0*	2,025.3	2,026.0
Composite	3,024.7*	3,027.5	2,708.1
Montreal			
Portfolio	1,531.38*	1,531.65	132.96
DENMARK			
SE	n/a	228.74	190.36
FRANCE			
CAC Gen	391.4	405.3	223.1
Ind. Tendance	146.40	149.50	80.38
WEST GERMANY			
FAZ-Aktien	659.02	641.50	439.29
Commerzbank	1,991.6	1,938.0	1,285.9
HONG KONG			
Hang Seng	1,820.98	1,794.94	1,599.64
ITALY			
Banca Comm.	893.55	803.15	319.64
NETHERLANDS			
ANP-CBS Gen	288.8	270.8	209.8
ANP-CBS Ind	277.9	258.1	170.2
NORWAY			
Oslo SE	337.06	332.28	339.57
SINGAPORE			
Straits Times	601.80	599.11	822.45
SOUTH AFRICA			
JSE Golds	–	1,145.6	1,074.6
JSE Industrials	–	1,159.7	970.7
SPAIN			
Madrid SE	176.10	178.17	82.28
SWEDEN			
J & P	2,298.34	2,279.33	1,393.32
SWITZERLAND			
Swiss Bank Ind	561.7	560.9	434.3
WORLD	May 21	Prev	Year ago
MS Capital Int'l	310.7	311.8	212.2

COMMODITIES

(London)	May 22	Prev
Silver (spot fixing)	327.70p	324.80p
Copper (cash)	£936.50	£926.50
Coffee (May)	£1,968.50	£1,930.00
Oil (Brent blend)	$13.75	$14.50

GOLD (per ounce)

	May 22	Prev
London	$341.00	$339.25
Zürich	$340.55	$338.90
Paris (fixing)	$339.61	$340.04
Luxembourg	$339.10	$340.50
New York (June)	$342.60	$339.80

* Indicates latest pre-close figure

CURRENCIES

	US DOLLAR		STERLING	
(London)	May 22	Previous	May 22	Previous
$	–	–	1.493	1.517
DM	2.279	2.242	3.4025	3.4
Yen	169.25	168.70	252.75	256.00
FFr	7.2575	7.1425	10.835	10.835
SFr	1.8905	1.8645	2.8225	2.830
Guilder	2.5625	2.523	3.825	3.8275
Lira	1,561.0	1,537.0	2,330.5	2,331.5
BFr	46.45	45.7	69.35	69.35
C$	1.364	1.3665	2.035	2.0730

INTEREST RATES

	May 22	Prev
Euro-currencies (3-month offered rate)		
£	10⅛	10 5/16
SFr	4 7/16	4 7/16
DM	4⅝	4⅝
FFr	7⅝	7⅝
FT London Interbank fixing (offered rate)		
3-month US$	7⅛	7 1/16
6-month US$	7⅛	7⅛
US Fed Funds	6 9/16*	6 13/16
US 3-month CDs	6.65*	6.65
US 3-month T-bills	6.19*	6.18

US BONDS

Treasury	May 22* Price	Yield	Prev Price	Yield
7¼ 1988	99 27/32	7.21	99	7.183
7⅜ 1993	97 11/32	7.857	97 19/32	7.755
7¼ 1996	96 15/32	7.893	97 3/32	7.81
7¼ 2016	95 9/32	7.51	96 9/32	7.522

Source: Harris Trust Savings Bank

Treasury Index Maturity (years)	Return index	May 22* Day's change	Yield	Day's change
1–30	148.76	+0.12	7.83	–0.01
1–10	141.95	+0.12	7.68	–0.01
1– 3	134.48	+0.02	7.35	–0.00
3– 5	143.59	+0.06	7.92	–0.01
15–30	173.44	+0.13	8.32	–0.01

Source: Merrill Lynch

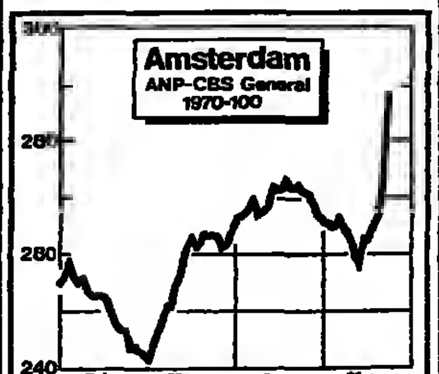
Corporate	May 22* Price	Yield	Prev Price	Yield
AT & T				
3⅛ July 1990	89.54	6.85	88.71	7.10
SCBT South Central				
10⅞ Jan 1993	105⅞	8.19	105⅞	8.2
Phibro-Sal				
8 April 1996	96	8.60	94.5	8.7
TRW				
8⅞ March 1996	100.98	8.55	100⅛	8.62
Arco				
9⅞ March 2016	104⅛	9.44	104	9.46
General Motors				
8⅝ April 2016	92⅞	8.84	90⅞	9.06
Citicorp				
9⅞ March 2016	97⅞	9.62	96⅞	9.69

Source: Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
June	95-25	96-24	95-23	95-29
US Treasury Bills (IMM) $1m points of 100%				
June	93.82	93.87	93.81	93.81
Certificates of Deposit (IMM) $1m points of 100%				
June	93.30	93.30	n/a	93.29
LONDON				
Three-month Eurodollar $1m points of 100%				
June	92.98	93.01	92.95	92.98
20-year Notional Gilt £50,000 32nds of 100%				
June	124-20	125-10	124-19	125-03

* Latest available figures



WALL STREET

Confidence quickly spreads

A WAVE OF CONFIDENCE in the bond market quickly overflowed into stocks yesterday, sending the Dow average shooting upwards to challenge the 1,800 level again, writes *Terry Byland in New York.*

Federal bonds responded to favourable trends in inflation, oil prices and the dollar, as well as to a dip in April durable goods orders.

The stock market opened higher and the Dow quickly extended a double digit gain to clear 1,800 at mid-morning. Buyers bypassed IBM stock, which weakened in heavy trade after another bearish review by a brokerage analyst.

Traders took a slightly cautious view of the advance in the first half of the session. Early gains of a full point in long-dated bonds were trimmed repeatedly and short-term interest rates showed little change.

Stock prices also came off the top. Although trading volume increased as premiums on stock index futures triggered buying programmes.

At 3pm the Dow Jones industrial average was 24.68 higher at 1,799.85.

Also rising strongly were the broader-based market indices, including the Dow and NYSE composite indices and the Standard & Poor's 500 index.

Optimism over interest rates brought sharp gains in utility stocks. And a burst of support for rail issues pushed the Dow Transportation average ahead strongly.

Responding to hopes that the sluggishness in the economy will force interest rates down were financial sector issues like J.P. Morgan, up $1⅜ at $86½, H.F. Ahmanson, up $1½ at $62¾ and Chubb, up $1⅜ at $72¼.

The broad range of industrial stocks moved up smartly as buyers re-appeared. Merck gained $1¼ to $186¾, Minnesota Mining $1 to $99½, Ford $1⅞ to $78⅞ and General Motors $⅞ to $75⅝. Upjohn jumped $3⅞ to $86⅞ after the annual meeting was told that its anti-baldness drug might be marketed next year.

A crucial factor in the stock market's progress may be the outlook for IBM stock. The shares stand in a strategically important trading range and were hit yesterday by reports that a brokerage analyst had told clients that Big Blue's second quarter would be "very poor" – with earnings perhaps down to $1.40 a share against $2.30 a year earlier.

At $144⅝, IBM was $⅝ down in heavy turnover, which took it to the top of the NYSE actives list. Some analysts forecast that IBM could fall to $120 a share.

But the other technology stocks brushed aside IBM's weakness. Digital Equipment, number two to Big Blue, jumped $1⅞ to $88⅞, NCR gained $⅝ to $54½ and Honeywell $¼ to $77¼.

Sperry at $72⅞ edged up $⅛ in moderate trading as investors awaited the next move in the bid saga. Burroughs continued to recover, putting on $⅝ to $59⅞.

Retail stocks continued to give a powerful lead, as this week's favourable news on consumer spending and personal incomes buttressed the excellent profits statements from leading store groups.

Toys R Us, the specialist retailer, managed a gain of $⅛ to $48⅛ after reporting lower earnings for the first quarter. But K mart, still basking in the glow of higher profits, added a further $1 to $52¾. Responding to recent trading reports were May Department Stores, $1⅛ up at $80⅞, and Federated Department Stores, up $1⅛ higher at $79⅞. Sears Roebuck, whose financial services divisions benefit from lower interest rates and retail divisions from increased consumer spending, jumped $1⅞ to $47 in heavy turnover.

Rail stocks, which some analysts believe offer buying opportunities, jumped sharply. Norfolk Southern at $84¾ gained $1¼ and Burlington Northern added $1⅞ to $67½. This week's downturn in oil futures failed to upset oils which featured gains of $¼ to $58½ in Exxon and $¼ to $54¾ in Atlantic Richfield. Occidental, which will pay over $800m for the chemical unit of Diamond Shamrock, edged up $⅛ to $27⅞.

Airline stocks stayed firm, with the domestic carriers again leading the way. Pan Am recouped $¼ of the week's fall to stand at $6⅞ in busy trading.

Among the financials, Quotron, the electronic market reporting group, added $⅝ to $19½, with nearly 2m shares traded, as Citicorp announced a $19 a share tender offer. The arbitrageurs hope to see the terms improve before the bid is completed.

The short end of the credit markets lay fallow and it was the long-dated bonds which signalled Wall Street's renewed optimism over inflation. Prices boiled over at midsession, leaving the key long-dated issue with a gain on three quarters of a point.

TOKYO

Chemicals display new vigour

BIOTECHNOLOGY and chemical issues were buoyant in Tokyo yesterday and helped to push share prices up yet again, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average gained 109.19 from the previous day to 15,917.33. Volume totalled 511m shares compared with Wednesday's 482m. Advances outnumbered declines by 500 to 337, with 149 issues unchanged.

Biotechnology issues came under the spotlight, with Kuraray pacing the upswing. Kuraray jumped Y80 to Y1,790 on reports that it had started clinical tests on a new anti-cancer drug.

Spurred by the rise, Toyama Chemical leaped Y51 to Y920 and Kyowa Hakko Y100 to Y1,730.

Chemicals strengthened across a wide front. Daicel Chemical, with 11.05m shares traded, surged Y35 to Y695. It was supported by its advance into the disposable nappy business and brisk demand for magneto-optical discs.

Kanegafuchi Chemical added Y12 to Y657, Sumitomo Chemical Y13 to Y340, Sumitomo Bakelite Y22 to Y737, and Nippon Oil and Fats Y11 to Y931.

Although there were no specific incentives bolstering these issues, they were considered relatively cheap compared with stocks in other industrial sectors.

Toward the end of this month, investment trust companies plan to establish new trust funds totalling Y200bn, most earmarked for investment in stocks.

Chemicals were also at the centre of small-lot buy orders placed by Daiwa Investment Trust and Management Co and Nomura Securities Investment Trust Management Co.

Iwatsu Electric and Tokyo Electric Power rose Y35 and Y110 to Y685 and Y3,800, respectively. But trading in blue chips, electric powers and gases lacked vigour.

Buying interest in speculative issues remained relatively strong. Nihon Nosan Kogyo topped the active list for the second day running with 21.02m shares and soared Y70 to Y555.

Nippon Beet Sugar, the second most active stock with 15.09m shares changing hands, gained Y19 at one stage but closed Y1 lower at Y404. Tobishima fell Y17 to Y817 and Nichiro Gyogyo Y22 to Y447. Janome Sewing Machine suffered a daily limit loss of Y100 to Y2,250.

Hitachi, which yesterday announced its business results for the year ended in March, was the focus of market attention as an indicator of how high-tech issues would perform in the months ahead.

Its recurring profit declined 38 per cent from the previous year to Y158bn and is expected to fall another 18 per cent to Y130bn in the 12 months ending next March.

Bond prices continued firmer, reflecting the growing belief among dealers and institutional investors that the bond markets in Japan and the US have hit bottom.

The yield on the benchmark 6.2 per cent government bond maturing in July 1995 fell slightly to 4.745 per cent from Wednesday's 4.785 per cent. Conversely, the yield on the 5.1 per cent government bond due in March 1996 dropped sharply to 4.88 per cent from 5.020 per cent, highlighting a shift of interest to the 5.1 per cent bond which will be the next benchmark issue.

EUROPE

Galvanised by Dutch election

THE GOVERNMENT victory in the Dutch general election galvanised the European bourse yesterday and produced waves of strong buying activity across the continent. The stronger dollar was also the signal for many foreign investors to re-enter the market.

Amsterdam, aided by record volume, hit an all-time high with a 18.2 jump in the ANP-CBS General index to 288.8.

Internationals led the list advance with Unilever finding extra strength from the rise in the dollar. The group surged Fl 27 to Fl 464.50. Akzo sprinted Fl 9.50 ahead to Fl 178.50 while Philips secured a Fl 4.50 gain to finish at Fl 59.30.

Banks, which were also buoyant in other centres, saw ABN jump Fl 27.50 to Fl 593 and NMB gained Fl 12.50 to Fl 208. Amro gained closed Fl 10.20 stronger at Fl 111.

Among the insurers, Amev added Fl 6.70 to Fl 88.70 on higher first-quarter results, while Aegon, trading ex its Fl 1.90 dividend, rose Fl 5.30 to Fl 110. Brewer *Heineken was also a strong feature with* its Fl 17.40 surge to Fl 171.

Pakhoed proved one of the soft spots of the day with its 80 cent fall to Fl 53.50, attributed to its lower 1986 forecast.

Volume hit a peak of Fl. 2.4bn ($952m).

The stronger dollar and Dutch election result boosted **Frankfurt** and the Commerzbank index advanced 53.5 to 1,991.6.

US investors were much in evidence pushing export and dollar-exposed issues higher. Banking issues were also particularly active.

Daimler led the car sector with its DM 41 surge to DM 1,367 while BMW staged an equally impressive DM 24 jump to DM 587. VW finished the session with a DM 15.50 increase to DM 564.50.

A DM 34 rise for Deutsche Bank at *DM 814 was attributed to strong foreign* demand and also sustained local support following the institution's higher first-quarter profits. Dresdner was also busy with a DM 13.50 advance to DM 423.50 while Commerzbank is at DM 327 was DM 11 higher.

Lufthansa's sharp fall in net profit for 1985 failed to cause much concern in the airline added DM 10 to DM 222.

Leading electrical Siemens jumped DM 19.30 to DM 622.80 after details of a DM 50m order from China.

Nixdorf reversed the weakness of the previous session with its DM 21 surge to DM 590.

Other features included Allianz 55 up at DM 2,455 and Hoechst's DM 11 jump to DM 285 in a firmer chemicals sector. Kaufhof added DM 3.50 to DM 422 amid *improved turnover for the first four* months.

The bond market was moderately active and sharply higher as both domestic and overseas buyers continued to open fresh positions.

Longs added as much as 90 basis points while shorts finished up to 35 basis points higher. The rise in US bond prices in Tokyo trading early yesterday underpinned Frankfurt although some dealers expressed concern at the market's ability to sustain such advances.

The Bundesbank sold a large DM 74.5m worth of domestic paper after Wednesday's sales of DM 72.8m.

Brussels continued to gain ground on the strength of the Government's moves on the budget and a wave of foreign buying.

Petrofina, trading ex its BFr 330 dividend, was BFr 70 lower at BFr 7,960.

Bekaert jumped BFr 400 to BFr 13,400 while Electrobel surged BFr 675 to BFr 15,675.

Milan finished higher in very active trading with much of the focus on insurance and industrial blue chips. Generali stole the show with its L5,250 rise to a record L170,000.

Fiat, which has suffered steady bouts of profit-taking in recent sessions, finished with a L130 increase to L15,[illegible] while Olivetti hit a high for the year with its L855 jump to L20,350.

Zurich tended higher in the wake of the dollar and the Dutch elections.

Continued on Page 47

SPAIN is to lift a ban on share purchases in foreign stock markets as part of its financial system liberalisation following membership of the EEC. The first authorised operation will be a purchase option of $50m of Electrolux shares on the London Stock Exchange.

The Swedish electrical group reserved a $50m share package for Spanish investors, part of a recent $300m capital increase share placement in London, and plans to invest the proceeds in its Spanish affiliate Ibelsa Zanussi, currently undergoing a restructuring programme.

HONG KONG

DEMAND FOR Cathay Pacific continued to boost prices in Hong Kong and the Hang Seng index crossed over the 1,800 barrier for the first time in more than a week.

The index ended 26.04 higher at 1,820.98 as overseas buyers, especially Japanese institutions, snapped up shares in the airline. It ended 25 cents higher at HK$5.85.

Swire Pacific, which is Cathay's major shareholder, added 30 cents to HK$[illegible].

SINGAPORE

A STEADIER move in Singapore left prices mostly mixed to unchanged as buying alternated with profit-taking.

Some blue chips were popular but many investors kept to the sidelines ahead of today's local holiday.

Among actives, United Industrial Corporation added 1 cent to S$1.50, RDM lost 2 cents to S$1.06 while Sembawang Shipyard slipped 1 cent to S$1.24.

LONDON

Fuelled by base rate optimism

OPTIMISM on a further fall in interest rates helped stocks in London improve for the fourth consecutive session. However, NatWest's move to cut its base rate a half a percentage point to 10 per cent came too late to influence trading.

Blue-chip industrials again caught the eye of investors and there was yet another flurry in the stores sector.

Beecham responded to a Merrill Lynch "buy" circular and rose 19p to 395p. Woolworth added 35p to 855p on the possibility of an increased bid from Dixons.

The FT Ordinary share index ended 3.8 up at 1,316.3 while the FT-SE 100 stood at 1,598.8, 6.9 higher.

The base rate news induced a minor rally in gilts but they fell back to end around ⅛ cheaper.

Chief price changes, Page 47; Details, Page 46; Share information service, Pages 44–45.

AUSTRALIA

BHP AGAIN held the centre stage in Sydney where shares firmed slightly.

Equiticorp Tasman, based in New Zealand, purchased around 5 per cent of BHP's shares, a strategic stake considering the takeover tussle in progress between Mr Robert Holmes à Court's Bell Resources and Elders IXL.

BHP ended 10 cents lower at A$8.40 after more than 27.3m shares changed hands.

SOUTH AFRICA

OVERSEAS interest bolstered prices in Johannesburg, especially among gold issues.

Vaal Reefs added R2 to R210.50 and South Roodepoort gained 10 cents to R3.10 while both Driefontein and Buffels were unchanged at R51 and R78.

Nedbank slipped 5 cents to R8.15 despite a forecast of higher earnings for 1987 and plans for a rights issue.

CANADA

MOST SECTORS drifted lower in Toronto, ignoring the higher trend on Wall Street.

International Thomson dipped C$⅛ to C$10½ after news of a US$35-a-share tender offer for all of the outstanding shares in Cordura Corporation.

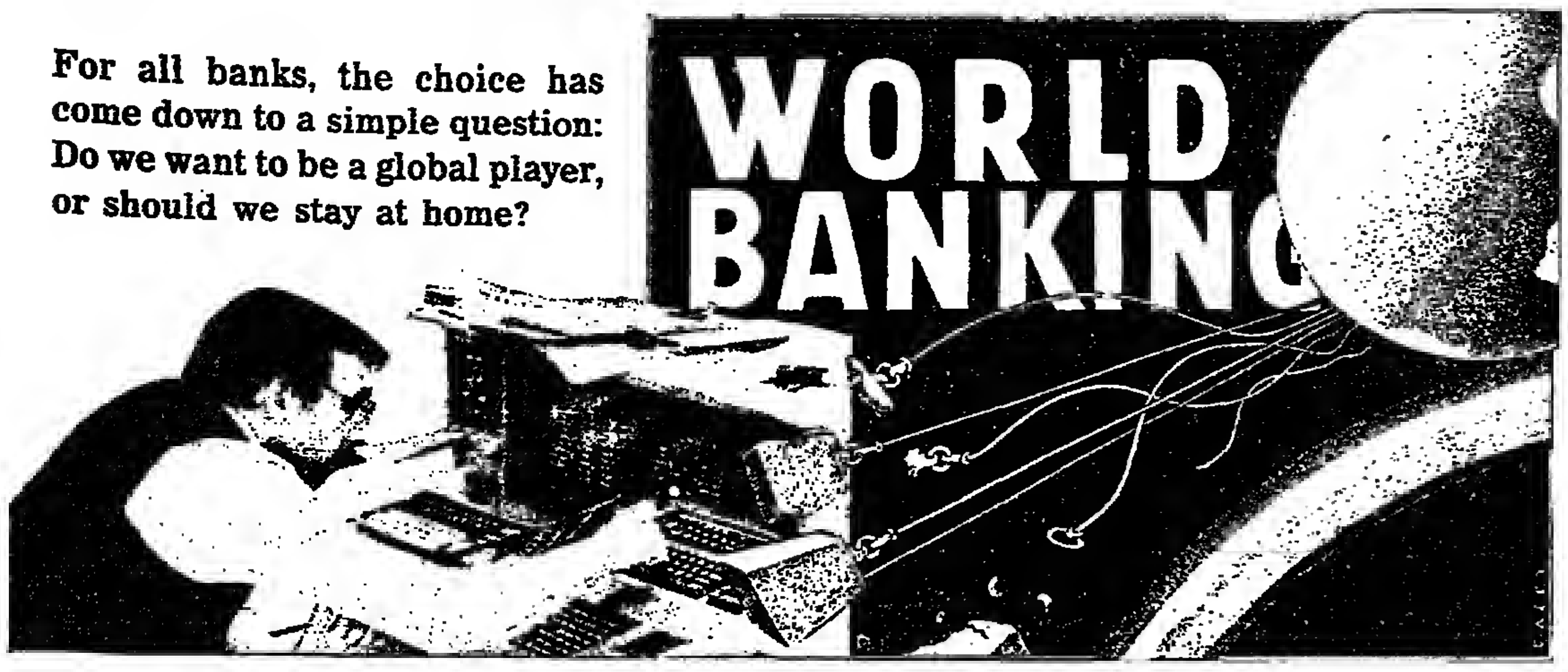
Montreal was higher with Power Corporation C$⅛ up at C$36⅞ and Domtar C$¼ ahead at C$29⅞.

[redacted]

FINANCIAL TIMES SURVEY

Friday May 23 1986

For all banks, the choice has come down to a simple question: Do we want to be a global player, or should we stay at home?



PART TWO

Statistical material for this survey was supplied by the Market Intelligence Department of the National Westminster Bank.

Part One of the survey appeared yesterday, and included reports from the following countries: Australia, Hong Kong, India, Indonesia, Japan, Kuwait Malaysia, New Zealand, Nigeria, NorthAfrica, Pakistan, the Philippines, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, and the United Arab Emirates.

Deregulation means one big pool

By David Lascelles, Banking Correspondent

THE BANKING business has reached a watershed, at least for its bigger members.

There cannot be a major bank nn the face of the earth that has not, in the last year or two, been forced to confront the most searching questions about its future: about the kind of institution it wants to be, the markets it wants to pursue, and how it should deploy its people and capital around the world.

This applies equally to the giant "city" banks in Japan, the "money centre hanks" in the US, Britain's "clearers" and merchant banks, the Continental "universal" hanks, to say nothing of the large institutions of countries like Canada, Australia and the Far East who want to be counted among the first leaguers.

For all of them, the choice has boiled down to a simple question prompted by the fast-accelerating trend towards a single world banking market: do we want to he a "global player," or should we stick closer to home?

For many of them, there was in fact no choice. The need to establish themselves on a global scale was, according to *many banking executives*, a matter of survival if they wanted to preserve their share of the big corporate market.

Although they all have large hranch networks spanning the globe already, there is a clear distinction, as one UK banker put it, between just having an overseas banking business and being truly international, which is what modern-day big time banking is all about.

Some banks did opt out, like Wells Fargo in San Francisco, but only because they had set their sights on different markets—in Wells' case, the middle and consumer market in its home state of California.

For the vast majority, it was only a question of how.

Bankers have had to get to grips with many trends: the deregulation of hitherto closed financial markets, which is allowing domestic pockets to flow together into one big world pool; the now well-established preference among top-class banking clients for finance through the securities markets rather than loans; and the integration of worldwide dealing thanks to new technology.

The challenge has been how best to build up worldwide dealing abilities in the major centres—principally, New York, London and Tokyo, hut also in *secondary* cities like Zurich, Frankfurt and Hong Kong, so as to be able to tap sources of capital in all its forms.

Many banks have been able to take the short cut by acquiring these abilities in the form of stockbroking and jobbing firms in the City of London or Australia, or bond dealerships in the US. But virtually all banks have also had to undergo at least a partial character transformation, and become more like securities houses or investment banks.

In the US, Morgan Guaranty and Bankers Trust—both leaders in the wholesale, rather than retail, banking business—have largely restructured themselves to combine their corporate lending, investment banking and treasury functions into single units which can supply virtually all types of corporate finance service. This is a far cry from the traditional bank, where all these activities are quite distinct, not only functionally hut culturally too.

It will be harder for other commercial banks to go quite as far, especially those with large retail networks. But many American banks have already taken the step of combining their merchant banking and treasury departments, so that their main market activities are all under one roof. Included are the banks' swap and foreign exchange departments, which gives them great flexibility to switch between currencies and interest rates.

European and Japanese banks have been slower to follow this trend, preferring to keep their new securities operations in separate subsidiaries, partly for regulatory reasons.

At the same time, hanks have gained footholds in many domestic markets over the last year or so, mainly by becoming members of local stock exchanges and seeking official recognition as dealers in government bonds. This has not always been easy, because of regulatory harriers—particularly in the US and Japan, where hanks may not underwrite corporate securities.

But in other countries the way has heen cleared, notably in the UK where the Big Bang has opened up the British securities markets to outsiders at a most opportune moment, and has contributed significantly to the evolution of the global market. Japan, despite its restrictions, has also yielded to powerful foreign pressure to admit hanks to its securities exchanges.

As a result, many large banks, like Citicorp of New York, now sport memberships of most of the world's significant securities markets, and as the trend accelerates, so local honds and shares are becoming more widely traded internationally, particularly US Treasury bonds which have now hecome the basic yardstick for comparing the cost of capital virtually everywhere.

No longer does an ambitious bank characterise itself as a group of sober loan officers. The new image centres on huge trading rooms with hundreds of dealing positions, flashing lights, communications lines reaching round the world; the thrills—and spills—of putting together hundred-million-dollar deals for top international clients, swapping them between currencies, placing them with eager investors. The reality may be a bit more mundane. But there is no mistaking the key role that trading is coming to play in the banking business.

But the cost involved in these momentous developments is considerable. By the time the capital investment in trading operations, the acquisition of the complex technological back-up, and the hiring of extremely highly paid human talent are totted up, the price of a global operation leaves little change from half-a-billion dollars — all for the privilege of competing against the largest and most powerful financial institutions in the world, and fighting for tiny spreads on enormous deals.

Nor is it particularly clear how many users of banking services will benefit from all this, apart from the world's one or two thousand largest banking customers, many of whom do not need finance anyway, and only horrow money to play the market.

Apprehension that many hanks are plunging into these markets more to match the competition, than from any well-thought-through strategy, exists but is unspoken. But most hankers justify the steps they have taken on the grounds that the changes that are taking place in their business are not passing fancies.

Their optimism is not shared by the banking authorities of the leading industrial countries, who have made no secret of their concern about the pell-mell rush to innovate. Their joh, of course, is to urge restraint. But they have been unusually vocal about their worries—anxious, evidently, to he more effective in forestalling the next banking crisis than they have often been in the past.

The Basle-based Bank for International Settlements, the central bankers' central bank, has now put out two papers discussing the dangers. One, from the banking supervisors committee, chaired hy Mr Peter Cooke of the Bank of England, warned about the risks in new financing instruments, particularly those that do not appear on hank balance sheets.

The second, from a study group headed hy Mr Sam Cross, of the New York Fed, also commented on the threat posed by innovation to effective monetary policy: the markets are now so inventive and fast-moving as to undermine the effectiveness of traditional monetary controls.

The question, though, is what, if anything, the central hankers can do about it. On the regulatory front, they can urge caution and require banks to hoost their capital—which they are doing to some effect, but only until someone invents the next novelty that sends hankers rushing off in a new direction.

On the monetary front, the rapid integration of world capital markets, predictahly is reducing equally rapidly any individual country's ability to conduct an independent monetary policy. Whether that is altogether a bad thing, at a time of growing world economic integration, must be a matter of opinion. But it is an instance of the huge influence which the banking business has over the way the world works.

Trade and Project Finance

US seeks curbs on subsidies

WHAT DOES it cost a major British contractor or manufacturer to break into a new market before achieving his first project order?

The answer, in short, is that it can cost anywhere between £500,000 and £750,000 on a speculative basis before the exporter can expect any return whatsoever.

This was the sharp end of a weighty body of evidence submitted recently to a Commons Public Accounts Committee (PAC) which examined the contentious issue of subsidised export credits, and their importance in helping British companies win highly competitive project business in a debt-ridden world.

It is subsidised trade finance that is a particular irritant to the US Government, which has, so far ineffectively, pressed European nations to curb their use. The issue was not dealt with substantively at a recent meeting in Paris of finance ministers of the Organisation for Economic Co-operation and Development.

The US, for its part, has set up its own "war chest" to do battle with European nations mixing concessional aid with conventional loans to provide low-interest credits to help national companies abroad.

Britain, which officially condemns the practice, nevertheless is moving aggressively to boost the use of bilateral aid to help British companies.

Britain's posture undoubtedly has been influenced by the strong evidence showing how the judicious use of aid money from the Overseas Development Administration's aid and trade provision (ATP) can not only clinch contracts but open doors for further long-term deals in overseas markets.

The evidence submitted to the PAC by the National Economic Development Office noted that a contractor can expect to spend three to five years on intense marketing before he can expect to achieve his first order, and his expenditure will run to about £150,000 a year. In addition, these costs must be measured against the low profit expectations inherent in any initial export product launch.

Modern Jakarta . . . Indonesia is a key market for British project support in Asia

The primary challenge is to establish local credibility, but what almost always secures a deal is a combination of commercial credit and aid. Once that is established, the contractor stands or falls on his own performance.

The Nedo submission cited the experience of Balfour Beatty, the construction group, in Indonesia.

Until the 1970s, Indonesia was little known to British exporters. It has since evolved into a market dominated by Japanese interests (33 per cent of the export market share) followed by the US (12 per cent) and West Germany (8 per cent).

In 1972, Balfour Beatty secured its first contract, following five years' work. It was a £1.65m deal to supply a 20 Mw diesel power station in Bali. ODA funds carried the deal as Indonesia, at the time, required 100 per cent financing.

The deal, combined with the upswing in Indonesia's oil fortunes, led to closer ties between the company and local contractors and a 50-50 joint venture group, Balfour Beatty Sawti was set up. It has since spearheaded success in the market.

The evidence submitted to the PAC showed that the company's success in the region might not have taken place had it not been for the ODA's aid and trade provision.

Selective ATP support worth £15m over 12 years has yielded £307m in contracts to the company, of which some £220m was of direct benefit to the UK. A further £10m to £15m in ATP support could have yielded another £100m in contracts, some of which were lost to more generous aid-supported companies from Germany, France and the US.

In recent months the ODA has made an unspecified pledge to increase its ATP support for UK business in Indonesia, which it has identified as a key market for British project support in Asia, generally accepted as the developing world's one reliable growth region. The support will be even more vital, given Indonesia's current retrenchment as it adjusts to the lower price of oil.

Hand-in-hand with Indonesia is Britain's renewed commitment to substantially boost ATP support for project business in China and India.

"The introduction of the soft loan facility is in recognition of the preference for certain developing countries . . . for project-related financial packages to be provided in the form of single soft loans rather than in combinations of grants and exports credits," the Department of Trade said, in outlining the aid policy change.

Sir Geoffrey Howe, on a recent visit to India, disclosed the UK's commitment to make £300m available to support projects. Talks now are proceeding between the Government, UK private sector interests and the Indian Government to determine when, and how, such funding can be applied to Indian projects requiring British know-how and goods. The funds will be disbursed over the next five years and could require a repayment stretched out over a 20-year period.

Some companies that could benefit are Hawker Siddeley, John Brown, GEC, British Rail Engineering, STC and Davy McKee. The Durgapur steel works, a power station at Rihand, and a cross-country gas pipeline are major projects identified.

Britain's China aid package, which emerged after major industrial missions in 1985, has been boosted from virtual zero level to £300m. The basic form of the China proposals is a 20-year repayment period for loans with a five-year grace period, and an annual interest rate of 5 per cent. Some 20 projects so far could benefit from the China aid.

Officially, the ODA's gross aid programme for 1986-87 is £1.26bn. Some 60 per cent is spent on bilateral aid (both financial assistance and technical co-operation) to more than 120 countries. The balance of 40 per cent is disbursed as part of multilateral aid programmes involving other bodies such as the World Bank and the EEC. Officially, the ODA's ATP loans budget is being boosted at £66m last year, by £10m next year and £20m in 1988-89. But ODA officials admit that, if the commitments are carried through, the budget obviously will be increased.

According to the British Overseas Trade Board, the ATP supported contracts worth £85.2m last year. ATP offers made amounted to £232m, representing potential orders of more than £890m.

Just how tough the battle for project business is was reflected in the reduction of insurance guarantees by the Export Credits Guarantee Department. Through March 31 last year, new project business guarantees fell by 21 per cent to just over £3bn.

Said the BOTB: "Companies found that, in many markets, the ability to compete on technology and price was not enough to achieve success; increasingly business went to whoever offered the 'softest' credit."

Frank Gray

Merchant and Investment Banking

Global expansion needs new capital

THE UPHEAVALS that have struck Hambros Bank, one of the City of London's oldest and, until only a few years ago, its biggest merchant bank, are symptomatic of the strategic problems which face specialised banks worldwide.

In London, the dramatic structural changes associated with the Big Bang deregulation of the securities markets have aggravated the challenges created by the development of communications technology and the internationalisation of the client base.

Differing views on the right future strategy split the Hambro banking family apart, and after 150 years Hambros Bank no longer has a Hambro as chairman (although Mr Charles Hambro remains chairman of the holding company).

The former bank chairman, Mr Rupert Hambro, backed by his father and two brothers, is spinning off into a new vehicle which will concentrate on corporate finance and deal-making. His cousin Charles is apparently leading the bank away from its traditional City territory and into new areas, highlighted by its decision to buy the estate agency chain Bairstow Eves.

Hambros, like other London merchant banks, is being squeezed out of many areas of banking activity by the heightened competition from much bigger commercial banks. Unlike most of its rivals, it has baulked at the cost and risks of entering the London securities markets, the biggest new opportunity open in the City as it heads towards Big Bang next October.

Family-controlled banks face a serious constraint at a time when huge capital resources need to be mobilised. In sharp contrast, Mercury Securities, the publicly quoted parent of S. G. Warburg, has swallowed up several stock market firms and greatly increased its capital base in order to make possible a planned leap to a status similar to that of one of the big US investment banks.

These Wall Street investment banks are also going through a period of rapid change. The best of them are hugely profitable, but they have to keep pace with rapid increases in the volume and complexity of markets. They also face the challenge of building positions in the emerging new global market place. Strong presences are required in Tokyo and London, as well as in New York.

Accordingly, there is a new search for capital, often on a scale which cannot be supplied through the traditional partnership structure. One of the most famous, *Morgan Stanley*, has just been floated as a public company.

It explained in its prospectus that it was increasingly encountering competition from rivals owned by wealthy parent companies which could inject large amounts of capital. Commercial banks were increasingly entering the investment banking business in the US, with *some of the old Glass-Steagall* restrictions being eased, and international competition was also intense.

With an equity capital base nearly doubled after the issue at $600m, Morgan Stanley remains well down the Wall Street investment banking league table, and is of course dwarfed by the big US commercial banks. Several of these are now *determinedly* muscling into the global investment banking scene, despite the regulatory problems they face in their home country.

For instance, Citicorp has acquired membership of both the Tokyo and London stock exchanges, as well as of many other smaller exchanges. It is building up a corporate finance activity, largely on the basis of its cross-border skills.

For the time being it depends very much on its lending potential. It became involved in the Elders IXL bid for Allied-Lyons, for example, *mainly* as a source of short-term finance, and had to accept that a British merchant bank, Hill Samuel, would be brought in to provide specialised corporate finance advice. But this may not hold true for very long.

The big British clearing banks, too, are seeking to become continental-style universal banks. They are busily pursuing global investment banking strategies, led by Barclays and National Westminster. For instance, an associate of NatWest, County Asia Securities, is about to be granted a securities licence in Japan.

But commercial banks are snarled up in regulatory tangles, both in the US and Japan, because of the strict laws in both those countries enforcing separation of commercial banking and the securities business. For the time being, this gives some protection to specialist investment banks, but the restrictions are being tested all the time.

Already in the US commer*cial banks are engaged in retail* broking, in investment management and in trading in Treasury securities. However, they are still banned from underwriting and making markets in equities and corporate bonds.

There will only be room for a strictly limited number of players in the global securities market. Most, if not all, of them will need to be very rich and powerful. Yet size does not count for everything, and there will always be scope for smaller players who opt for a degree of specialisation, whether in terms of the type of activity they cover or the part of the world where they concentrate their strength.

Bankers tend to talk enthusiastically about "niche businesses," which offer shelter from the harshest winds of competition, and provide high returns without the input of large amounts of capital.

Corporate finance advice used to be such a business, *but increasingly* it is being captured (certainly in the US) by the big securities trading firms, who feed off their regular business in order to price and distribute new issues more effectively.

Thus Morgan Grenfell, a leader in corporate finance in London, now feels obliged to spend heavily on a relatively late push into the securities trading business. But the associated Lazard units in New York, London and Paris have favoured a more aloof stance, relying more on dealmaking skills and a unique international network.

Lazard Freres in New York, in particular, is immensely profitable on the basis of a staff of no more than 400 or so, but this is a hard act to copy.

Other valuable niches have included Drexel Burnham Lambert's cornering of the US *junk* bond market, and the international portfolio management business which has been captured by a number of London merchant banks. Venture capital is profitable for some, advisory services to hard-pressed Third World governments are lucrative for others.

But more and more, merchant bankers are having to live on their wits, chasing uncertain temporary fees and dealing profits rather than living off the fat and reliable margins they could often expect in the old, highly regulated markets.

Hambros Bank made an immense profit out of the shrewd investment which set up Mark Weinberg's Hambro Life. It made up for a lot of disappointments in the traditional banking business. And the full implications for a 150-year-old family bank are only now becoming evident.

Barry Riley

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Cash Management

From software packages to coded cheques

Jonathan Butterfield . . . "Banks need to get their own house in order before they can sell cash management services successfully"

SUCH is the competition in the corporate marketplace that banks are hoving to differentiate their services more sharply than ever. And the service thot comes under the greatest scrutiny is cash management.

The term itself encompasses a wide diversity of functions, but its basic components are simple: o bank occount, payment mechanisms and the ability to invest, borrow or exchange funds. The types of services on offer to perform these functions range from software packages for personal computers, netting arrangements, interest bearing current accounts, right through to encodod cheques and deposit slips.

Howevor, these days, the corporate treasurer expects the information he needs on his balances to be delivered in a frequently updaird mode. Increasingly he wants to control his funds himself, which means using on electronic cash managemont system.

Yet those systems, of which there ere plenty on tho market, have met with a high degree of resistance from customors, despite hard-selling efforts from the banks.

Michael Moss, managing director of Vargoss-Glendinning describes the recently published results of The Vargoss British Large Corporate Banking Study 1984/85: "In 1984, 30 per cent of the 300 major companies we interviewed were using terminal-based electronic banking services, and we found that bank were soliciting them for new business at a rate of 37 per cent. In 1985 solicitations by the banks had almost doubled — to 70 per cent, but the increase in percentage of companies using electronic banking services was only 1 per cent to 31 per cent.

This indicotes, says Mr Moss, that banks are missing the mark with their marketing efforts. Somehow, they have failed to understand what corporate treasurers actually want from a cash management service.

An example of this is some of the services which suppliers of cash management systems are offering — technically sophisticated multi-curreocy, multi-lingual modules for tracking and transferring funds abroad. Yet for most treasurers in the UK, top priority is domestic account information, delivered on a same-day basis. In the Vargoss study, International facilities came low down tho list of demands, wheroas domestic services relating to same-day procedures and control of balances dominated.

The more sophisticated services are undoubtedly useful for a solect group of treasurors, but companios regard cash management products as highly expensive — a commonly stated reason for not using a service — so offering what one treasurer called "a Chinese menu" of technically clever facilities may not warm the customer's heart to the system.

The reason why cash management is perceived as so costly by customers, says Jonathan Butterfield, Director of International Marketing for Liceneed Services at Chemical Bank, is because the treasurers don't understand the value added that has been provided historically and which may now be priced more overtly.

"The back-office bureaucracy alone," says Butterfield, "is incredibly time-consuming and labour-intensive. For example, signature verification can be extremely complex with a large company, but it is essential that it is checked by the bank carefully before funds are authorised."

On top of back-office functions, a company is getting space on the bank's computer, transactions in and out of its accounts, and services like regular statements and balance reporting. "If corporates understood what it takes to perform a service, they might be more sympathetic towards paying for it," says Jonathan Butterfield.

Yet banks are as much at fault, for they too often price their services on a haphazard way, typically presenting an "unbundled" account chargo at the end of a quarter.

"Banks are at a disadvantage in understanding costs associated with many cash management services," says Butterfield. "They are offering services which use pieces from various operating areas. This makes costing more complex and generally a tedious process to undertake."

What it comes down to is pricing strategy. "Banks need to get their own house in order before they can sell cash management services successfully," says Butterfield. He defends the low take-up on solicitation rates that Vargoss found, however, by pointing out that the issue is not who makes the most calls, but who is the most effective.

What is needed, says Butterfield, is a consultative approach, rather than a hard-hitting attack on the treasurer. "Don't forgot that many corporate treasurers in the UK are still highly leery of electronic banking."

Highly leery they may be, because hitherto they have thought they were getting many of their basic banking services free—services such as collecting daily balances over the telephone. Vargoss found that 70 per cent of the companies they interviewed received account information over the phone, but that only 11 per cent believed they were actually paying for this service. The rest thought it was free. In fact, banks were covering their costs in all cases, but usually in the form of unbundled quarterly charges.

This lack of communication between banks and their customers reflects the thorny nature of cash management at the moment.

For most banks, offering cash management services is a defensive strategy, driven by competition from rival banks and corporate demand for better-defined and competitively-priced services.

"We can hardly blame the customer for seeking out the best deal," points out Jonathon Butterfield. But he comes back to his original argument about the need for pricing services realistically, which prosumos that a bank understands its own costs and operations properly.

Martha Johns, Director of Research at Vargoss-Glendinning, agrees, but takes the case a stage further:

"Unless banks learn to sell their cash managoment services profitably, it is unlikely that thoy will be ablo to stay in the field."

Inevitably, there will he fewer players because casb management is an unprofitable business, unless you are very successful, thinks Martha Johns. Most banks will turn eventually to more defined specialist functions and leave casb management to the giants who can afford it.

"How many banks can afford to stay friends with everyone for ever?" asks Jonathon Butterfield. "The time will come," he predicts, "when a bank has to decide whether or not it generates enough profits to continue competing in tho cash management field, and if not, to get out.

Elizabeth Sowton

Elizabeth Sowton is Editor of Banking Technology. For more information about the Vorgosa British Lorge Corporato Banking Study 1984-85, contact Michael Moss or Martha Johns, at Glendinning Associates International Consultants, Ltd., 91, Wimpole St., London, W1. Tel: 01-499 8794.

Venture Capital

Merchant banks rejoin the game

ONE OF tho most important changes in tho UK venture capital industry over the past two years has beon tho growing involvement of morchant hanks.

A handful of them originally entored vonture capital in the early 1970s as investors and fund-raisers, but quickly recoilod from the industry after losing money and—more important—face on e series of disastrous high-technology ventures.

Their roturn, a docade lator, is partly due to a growing recognition, emplified by the success of the Unlisted Securities Market, that working with young companies now can be a good way of getting early eccess to the big fee-earning corporate clients of the future.

The Unlisted Securities Market

Merchant banking subsidiaries of clearing banks like County Bank, the National Westminster offshoot, or Barclays and Lloyds merchant banks, have also turned to venture capital as a way of making furthor use of their own resources, and of extending tho banking services already available through their parents' extensive branch networks.

The same logic applies to tho Midland, but unlike the other clearers it has kept its venture-capital arm as e direct subsidiary of the clearing hank parent—a structure adopted by Lloyds until its venture capital vehicle, Pegasus Holdings, merged with Lloyds Merchant Bank last year.

A survey early last year by Venture Economics, the US researcb consultancy, showed thet 12 of tho 16 London accepting houses hed becomo "major players" in venture capital, oither as fund raisers, investors or fund managers.

Risk investment in small businesses is certainly catching more merchant banks' attention, thougb they have been in tha business of investing in unquoted companies for many years. Charterhouse Development, part of the Charterhouse merchant bank, is in fect the oldest provider of venture capital of any kind, having npened in 1934.

However, Barclays Morchant Bank was the first to set np e venture capital unit managed and capitalised separately from its parent, with the formation of Barclays Development Capital in 1979. This followed the example set by several US commercial banks which fonnd that their own diversifications into venture capital worked better if handled by a non-bnreaucratic organisation kept apart from the head office.

Barclays' move was followed hy tho launching of similar independent units at County Bank—which bas the largest development capital portfollo of all morchant banks, in line with its parent's huge 3,200-strong branch network—Robert Fleming, Guinness Mahon, Kleinwort Benson and Rothschilds. Lazard Brothers had also established a separate venture capital arm to co-ordinate its unquoted investment activities, where it has become a leader in raising regional funds.

As a demonstration of their fund-raising power, merchant banks are estimeted by Venture Economics to have pulled in almost half of the £145m subscribed for indopendent venture capital vehicles in 1984.

Tho speed at which they have been ahlo to move into venture capital owes much to the merchant banks' position as edvisers to £43bn worth of pension fund investments, the pulling power of thoir prestige, and the strong US links that many of them have built up through thoir other ectivities. Others, like Baring Brothers—which, incidontally, teamed up two years ago with San Francisco investment bankors Hambrecht and Quist—and Robert Fleming are also active in Japan.

Venture capital funds with bank connoctions have beon particularly ective in advising and financing the growing number of large and complex management buy-outs that are flooding the risk-investment industry.

Prime oxamples includo Scbroder Vontures and Citicorp, whose corporate finance skills leave them well placed to create the sophisticated financial structures that ere a feature of the biggest huy-outs. Thoy bavo both launched buy-out funds in the past year, speaking for £72m and £100m respectively.

A record £930m was spent on management buy-outs in 1985, estimate accountants Poet Marwick. Deals worth £200m were put togethor in the first fortnigbt of 1986 alone—suggesting that the total might easily reech £2bn, of which banks will probably take o largo share, oither as edvisers or providers of finance.

Like so many other aspects of British vonture capital, large and highly geared buy-outs are reflections of a US fashion, even thongh smallor management acquisitions have been commonplace in tha UK for many yoars. Another well-known feature of venture capital inheritod from tha US is the techniqua of "bands on" management, whereby fund managers attempt to add value to investments by participating in the general management of their companies.

Exemplars of this approach includo a minority of funds like Alan Patricof Associates, Thompson Clivo or Advent, which tend to have strong US connections. However, most of the bank-releted venture capital groups—but not all—belong to a more traditional school. They tend to follow the so-called portfolio approach, whereby fund managers use financial skills to assess e potential success and confine their involvement in day-to-day manegement to heing available wben advice is needed.

Hands-on managers claim thoy are better equipped to steer young companies away from trouble and overcome the inevitable strains of growth. However, there is no evidence yot to suggest whather or not young entrepreneurs do bettor with US-style bands-on investors or merchant bank style hands-off ones.

William Dawkins

Retail Services

Now the financial supermarket

ONE WOULD have to be an unawakened Rip Van Winkle not to be aware that enormous changes are taking place in retail banking. A great deal of effort is going into marketing financial services.

"Marketing," in the words of Mr Colin Wilks, a general manager with Lloyds Bank in London, "is about profit."

In the view of those doing this marketing, there is clearly profit to be made. According to Richard S. Braddock, head of Citicorp's Individual Bank (the name given to the bank's consumer arm): "Banking and insurance represents from 5 to 10 per cent of the gross domestic product of the industrialised world. Consumers are willing to spend over $150bn a year for financial services in the US alone.

"Despite the uncertainties of deregulation and the impact of isolated bank failures more and more competitors find the consumer financial services market an attractive one to enter," Mr Braddock says.

Marketing is having a profound effect on the once staid world of banking. But this impact has been a long time in coming and although bankers are striving hard they are still reckoned to be a long way behind their fellows in the merchandising retail field when it comes to marketing skills.

A report by Peat, Marwick, Mitchell for the American Bankers Association says: ". . . As a retail banker you will have to be more retailer than banker in the future. . . . The banker has traditionally identified a market, offered what was allowed by law and custom . . . and awaited the consumer. . . ."

The days of waiting are over. The banker is now doing his best to put his wares where the consumer cannot miss them. The day of the financial supermarket is here.

Financial supermarkets, allegedly, are efficient. Traditionally, individual financial services were offered by individual institutions—a banker offered banking services; an insurance house offered insurance; a stockbroker offered stockbroking. . . . This specialisation tended to become more specific over time; the specialisation was reinforced by both custom and by legislation.

Over the years it became necessary to regulate these activities or markets so the "rules" tended to enclose each with its own "box." These traditional and legal barriers were further reinforced by the greed that tends towards monopoly. Like-minded men, carrying out similar activities, tend to form guilds, clubs, unions or institutions. These gatherings are seldom more than crude attempts to keep others from sharing in the profits of the activity.

This specialisation is, in the view of Mr Mark Weinberg, very inefficient. Mr Wainberg is now chairman of Allied Dunbar, a UK financial services group owned by BAT Industries.

"The average member of the public needs perhaps 10 different financial services at one time or another," Mr Weinberg says.

"He needs banking all the time as he wants to write cheques frequently. But the rest of the financial services he needs sporadically: a mortgage every seven years perhaps; an overdraft every three years or so. He needs a life policy every so many years . . . and so on."

The financial institutions selling these "wares" to the public have to keep them in the public eye. They may have salesmen visit potential customers: they may set up in expensive High Street premises and hope to attract customers to them: they may spend a great deal on advertising.

Much of this selling or marketing effort is wasted. The assurance salesman who makes a sale to every prospective customer surely does not exist. Every sale made by our assurance salesman must carry the costs of all his unsuccessful sales attempts.

If our salesman of life policies, however, is in a position to offer more than one "product"—if his sample case contains not only life assurance policies but is packed with goodies—perhaps banking services, unit trusts, home loans, stockbroking services — his chances of raising his "hit" rate rise sharply. His efficiency should rise.

Selling fioancial services this way should be much more ecooomic. It is not just marketing: it is supermarketing.

In a series of lectures given in Loudon last year (The Gilbert Lectures) David Llewellyn, Professor of Money and Banking and chairman of the Loughborough University Banking Centre, said: "A finaucial centre where every institution can conduct a wide range of business is likely to be more competitive than ooe in which each institution has a limited range of activities. There can, for example, be little doubt that retail banking services have improved as a result of competition from building societies and money market funds.

"There is also the possibility that some customers would prefer to shop in a finaucial department store providing a full range of financial services."

Home buying is seen by some as the key to financial supermarketing. When somebody buys a home it is usually necessary for tha individual to review his or her entire financial position — homes, after all, usually cost a great deal of money. Mortgage finance has to ba raised, insurance arranged, life assurance policies reviewed, bridging loans contemplated.

If one accepts this viewpoint — that homa buying is often the key — the moves by financial institutions into the estate agency field become very logical. Hence the link between Sears Roebuck, Chicago-based merchandise empire and latterly financial services empire and Coldwell Banker, one of the biggest full-service estate agencies in the US: hence the move by Lloyds Bank in Britain into estate agency. The bank's Black Horse chain is now the biggest in the country.

The pace of change in the marketing of financial services is probably faster now than it has ever been. The barriers that have separated the various financial institutions—the walls that confined stockbrokers to stockbroking, insurers to insurance, bankers to banking — are tumbling.

Several forces are contributing to this collapse of the barriers. The most significant, with the shrillest trumpet sound, is the development of technology. Before the advent of sophisticated computing techniques record-keeping was a time-consuming and cumbersome task. Analysing customer bases according to aelected criteria and then printing and posting mail-shots in an effort to "cross-sell" financial services, for example, would have been too time-consuming and expensive to have been contemplated.

The social climate in many western countries and the moves by governments towards deregulating financial markets has been another force helping to knock down the barriers. Changes in the tax laws in the direction of greater fiscal neutrality is another.

Finally, smarter customers, with more money and more nous, prepared to shop around and find the emporium that best suits them, have played a big part in the changes.

Britain's big clearing banks have long offered almost every type of retail financial service. However these institutions are not regarded as "financial supermarkets." They do not, in most cases, offer the autire range of financial services from one centre.

As Professor Llewellyn spelt out in a series of lectures on "The Evolution of the British Financial System" last year: "They (the existing financial conglomerates, especially the clearing bank groups) have conducted their different activities from different premises (frequently through separate subsidiary companies).

"Whether this structure confers the advantage of the 'department store' is questionable. In this case the benefit to the customer must derive from any alleged efficiency advantages to be gained from within the conglomerate. But this is likely to be small if different parts of the group are managed as separate companies."

It is the smaller retail banking companies that have offered the range of linked financial services that perhaps entitle them to be called "financial supermarkets."

Mark Weinberg . . . "The average member of the public needs 10 different financial services"

Adam and Co is a small banking company set up in Scotland in 1984 by Ian Dalziel and Iain Noble. It is clearly aimed to appeal to the well-heeled—"a banking company catering predominantly for individuals whom we can identify as requiring a particular sort of service, a particular standard of attention, that perhaps they were not getting from the existing banks," in the words of Ian Dalziel.

Both Mr Noble and Mr Dalziel would shudder if their company were described as a supermarket yet in the sense that financial supermarket is accepted, that is what it is. It aims to provide the complete range of financial services and financial advice. The reason it can even attempt this is because of developments in computing.

Small, relatively cheap computer hardware and software systems have enabled companies such as Adam and Co in Scotland and the banking erm of Mark Weinberg's financial management group—Allied Dunbar — to set up what are true financial supermarkets.

Ironically the very thing that has enabled these relatively small companies to do this — the advances in computing techniques — are among the reasons keeping the big clearing banks from integrating all tha financial services that they can offer into the "complete finaocial services" package. For the big clearing banks have very big computers.

Big computers, buge customer bases and relatively unwieldy administrations are wbet is keeping the high street clearers from offering the sort of service now offered by Allied Dunbar and Adam and Co.

Whether the big clearing banks do try to "integrate" their computer systems and offer the entire range of financial services as a "package" remains to be seen. Mr Fred Crawley, deputy chief executive of Britain's Lloyds Bank, says: "The clearing banks face many challenges in the years ahead. The Big Bang is one of them, but it isn't the only one, and not necessarily the most important.

"The competition of the building societies in the retail market is just as formidable as that of the new capital market conglomerates in the wholesale market. The potential of new technology, which is only beginning to be understood, may lead financial markets in new directions which we cannot now foresee."

Parallel with the move by financial institutions towards the "financial supermarket" concept is the move by what traditionally have been merchandise retailers into the retail financial services field.

This is perhaps exemplified by the moves that have been taken in the US by the giant merchandise retailer, Sears Roebuck. Helped by the restrictions to inter-state banking in the US (which have inhibited the growth of banks) Sears Roebuck has become a major financial institution offering life assurance, broking, estate agency and the Sears credit card, of which there are more than 40m holders.

Britain's best-known retailer, Marks & Spencer, showed signs that it was determined to follow the route taken by Sears Roebuck when it launched the M & S card nationally in April 1985. But Marks & Spencer is just one of a number of retail chains that is now offering, either in conjunction with a bank (Tesco and Midland Bank) or soma other financial institution (Debenhams and Wellbeck Finance) some form of financial service.

Home banking could add another facet to financial supermarketing. Except for France, where it has been pushed by the central government, home banking has not really caught on in the west. In the US some dozen banks are marketing home banking schemes.

In Britain there has been an effort by the Nottingham Building Society and by the Bank of Scotland. Mr Bruce Pattullo, Bank of Scotland's chief executive, is optimistic that the concept will catch on sooner than most people think —but the Bank uf Scotland will give no clue as to bow many customers have taken up the home (and now home and office) banking scheme.

The efforts by financial institutions to be all things to all men is not only happening on the retail front. It is happening in the wholesala markets as well. Undoubtedly there will be a backlash and some specialisation will again come to the fore.

One top banker pointed out recently: "Managing a financial conglomerate in a bull market is one thing. The strains will really become apparent in a bear market. I wouldn't be at all surprised to see some spectacular crashes."

Garth Hewitt

Credit Cards

Breaking down the frontiers

IT IS no longer just Americans who sport wallets full of plastic cards. Cashless transactions are fast becoming a way of life all over the world, and the rise of the rectangular piece of plastic has become yet another factor in the easy vaulting of national boundaries.

Plastic cards have generally been divided into credit and charge cards. Charge cards can enable you to pay bills and withdraw cash all over the world, demanding repayment of the entire sum at a given date each month. Credit cards, on the other hand, allow you up to a month's free credit on your purchase, after which you begin to incur interest charges.

Notwithstanding traditionally high interest rates — up to 10 points and more above base bank lending rates in the UK—credit cards have become an increasingly popular means of obtaining consumer credit.

At the same time, international credit cards, such as American Express and Diners Club, have sought to woo customers with extended insurance cover and travel benefits aimed at families as well as the business traveller.

Earlier this year, American Express launched a new scheme in the UK offering protection against travel company failure, alongside other advantages when the card is used to book holidays.

To some extent, companies such as American Express are under constant pressure to offer new facilities to cardholders, as there is an annual charge for the privilege of using the card. The absence of a pre-set spending limit, however, is attraction enough for many, in particular those who prefer to aggregate as many bills as possible for payment with one cheque.

Some charge card companies, such as Visa and Mastercard, are owned by the banks that issue the cards. Customers prefer cards and traveller's cheques which have big names on them, and the banks need to be able to offer such products, so the relationship would appear to be of mutual benefit.

In reality, however, bankers have been known to complain, often quite vociferously, that card organisations have become so large they have taken on a life of their own.

The American Express Gold Card—offered to the bank's most creditworthy customers, and backed by a bank line of credit—is viewed with particular dismay by some bankers, nervously holding on to their client lists in fear of having them poached.

While the link between banks and credit cards is unlikely to be ruptured, however, competition looks set to increase as the growing network of international automated dispensers makes the cards ever more practicable to use.

Holders of Barclaycard in the UK, for example, are linked into the Visa network, enabling them to buy goods and services in more than 160 countries. The use of cash machines and shopping terminals in certain European countries is imminent.

Banks in 17 European countries are in the process of teaching their computerised payments systems to talk to each other, enabling a card issued in one country to activate cash machines and shopping terminals in another.

This new system represents a technological breakthrough: it will allow for the instant debit of your bank account at home as soon as you make a purchase. Paper slips—on which the international credit card system is based—will no longer be necessary, and credit card jugglers will have to wave goodbye to a possible six weeks of interest-free credit.

Cashing in on the plastic life

Alongside Visa, Europe has two principal payments systems —Eurocard (to which Access belongs) and Eurocheque, a Brussels-based association of banks from 16 countries, offering uniform cheques and credit cards.

The linking up of these three systems should ensure the end of Europe's cash barriers, certainly by the end of the decade. In the UK, after much agonising over the extent of demand for cashless shopping, experiments are now being conducted by several banks with a sample of retailers using terminals linked to the bank's computer centre.

One such scheme was launched last month by Barclaycard, intent on reducing fraud as well as cutting down on costs and paperwork in card transactions.

The key to the system is a computer terminal used by the retailer, which has the ability to "read" information written in the magnetic stripe on plastic cards. As soon as the card is passed through the terminal, a telephone call is made automatically to the Barclaycard computer centre to verify that the card is valid and not stolen.

Barclaycard intends to continue to rely on signatures rather than personal identification numbers, but its experiment is part of the development of a national electronic shopping system.

The UK continues to lag behind several western European countries, but experiments in cashless shopping with direct debit of the customer's bank account or EFT-POS (electronic funds transfer at point-of-sale) systems have been carried out. The first large-scale nationwide pilot scheme is scheduled for the start of 1988.

While individual department stores in the UK have turned increasingly to their own credit cards—Marks and Spencer, which last year launched its own card, now boasts more than 1m cardholders—in the US, department store credit cards may be about to break new ground.

Sears, Roebuck has issued 60m of its own cards, and has recently launched a card named "Discover," which can be used in outlets other than the company's own stores. Not only can the card be used to draw cash from more than 5,000 automated teller machines (ATM) but it offers services such as drawing on savings accounts that pay a money-market rate of interest.

Britain's largest building society, the Halifax, offers a CardCash account which enables the payment of bills by means of a plastic card inserted into an ATM. The customer's money earns interest, and there is no charge for the payment of bills.

As customers worldwide begin to demand more from their financial institutions and competition intensifies, the French-invented "smart card" points the way to efficiency coupled with protection from fraud.

The "smart card" is a credit card that contains an in-built one-chip microprocessor and memory, which has the ability to register electronically, process and control personal data. It can therefore be used for everything from cashless banking and retail transactions to storing individuals' health records.

US and European credit card companies have been attracted to the cards despite their cost, for they offer unparalleled security against fraud. Possible industrial alliances to spread the system throughout Europe are being considered, bringing cashless banking and cashless shopping across national frontiers ever closer.

Dina Thomson

Technology

Two-edged sword for banks

COSTS, COMPETITION and deregulation are the driving forces behind the banking revolution, but its direction is determined by microelectronic technology.

For bankers, however, it is proving a two-edged sword, often bringing as many disadvantages as advantages. Electronic payment systems, for example, may represent their only realistic hope of cutting back the mountains of paper generated by conventional cheque and credit voucher clearing, but it will also mean an end to the "float" of uncleared cash from which the banks have profited in the past.

Cash management systems consisting of an electronic link between a bank and its customers may strengthen the relationship between them, but it also gives the customer the opportunity to manage his money independently of his bank.

So although banks world-wide are investing heavily in electronic technology, they have an acute perception of the threats and dangers involved. These include:

- The risk of failing to exploit the most advantageous "window of opportunity" for an electronic product or service. Experience has shown that the technology "follower" who comes to the market second with an innovative product often has a better chance of success than the pioneer. It is an approach that commends itself to the careful world of banking but judging the right moment to move is difficult. Errors here can leave the technology follower hopelessly behind.
- The risk of losing a distinct and separate identity in a market increasingly dominated by identical electronic services. Deregulation in Europe, the US and Japan has opened the banking door to organisations traditionally regarded as non-banks. The building societies in the UK and thrifts in the US are typical examples. All of these organisations can, with varying degrees of competence, offer electronic services identical to those offered by banks.
- In the rush to exploit the new technological possibilities, bankers have neglected the very real risks that their electronic systems could be compromised, intentionally or by accident. Now they are placing a new emphasis on computers which tolerate faults and systems which are difficult to break into or subvert.

These are key issues where electronic funds transfer at the point of sale (eft/pos) or electronic cash management are concerned. Eft/pos, for example, implemented on a nationwide basis would involve the transmission of thousands of electronic payments messages over the country's data communications system every hour of the day. As such systems move closer to full implementation in a number of countries, banks and their suppliers are grappling with the problems of ensuring that retailers can continue to trade effectively even if the computer system is temporarily out of commission.

Eft/pos is both the most visible and the most complex of the new electronic services to implement, involving as it does banks, retailers, credit card companies and the public. The principle is simple. The banks, credit card companies and retail outlets are all connected in a telecommunications network.

Shoppers pay for their goods using either debit or credit cards "read" by point-of-sale devices in the stores. Electronic messages confirm the validity of the card and move cash automatically from the shopper's bank account to the retailer's.

France and Belgium are reckoned to be the most advanced in current eft/pos development in Europe followed by the UK, Luxembourg and Scandinavia.

The US has carried out a myriad of eft/pos experiments, but mostly on a small scale and there is no nationwide system. It must be said that "true" eft/pos, where the transaction is carried out "on-line" (the eft/pos terminal is connected directly to the bank's computer) and where cash is transferred instantly is rare.

Most of what passes for eft/pos at the moment involves the use of a special terminal to capture details of a transaction at the point of sale and the transmission of this information to a central clearing computer after shopping hours.

So, for example, in France Credit Agricole and Carte Bleue have eft/pos systems supporting some 20,000 terminals each.

Both of these systems are of the "off-line" variety (not true eft/pos). They have now agreed to operate as the Groupement Carte Bancaire in developing a system using a hybrid plastic card. It will have both a magnetic stripe (of the kind which can be read by conventional eft/pos terminals) and a built-in computer chip and memory ("smart" card).

According to a recent report from the Butler Cox consultancy*: "Plans include the ordering and placing of 70,000 eft/pos terminals by the end of 1988."

"In addition they hope to distribute 300,000 'certifiers,' small terminals which will accept smart card payments but have no communications facilities. Transaction details are recorded on paper vouchers for the bank instead."

In Belgium, two rival bank networks Bancontact and Mister Cash dominate the market. Originally the two networks were incompatible—cards from one network operator could not be used in the terminals of the other.

Retailers are adamant that they want only one terminal taking up space on their countertop; in an historic agreement last year Bancontact and Mister Cash agreed to revise their systems to allow compatibility.

No such problem should afflict the UK national eft/pos system planned to go live in 1988. Bankers have already agreed that it will accept all recognised credit and debit cards. In the meantime, three experiments have been initiated by UK banks and credit card companies.

The largest, run by Barclaycard, the Visa credit card operation of Barclays Bank, could run to over 5,000 terminals in the next two years.

Barclays is completely committed to supporting the national scheme, being implemented by EFT/POS a new clearing company established under the umbrella of APACS, the regulatory body for UK transaction clearing companies. Nevertheless, there is concern that the competitive environment could lead it to emphasise its own credit card network at the expense of the national system.

The situation exemplifies the threat and the promise of new technology.

On the one hand, eft/pos offers a realistic method of cutting away the paperwork involved in cheque and credit clearing. On the other, the banks are chiefly interested in selling credit and organisations like Barclaycard are worried that competitors could acquire their retailer customers by offering them better technology to improve credit card sales at a lower merchant service charge.

There have been significant developments in electronic cash management services, both at the top end and the bottom end of the spectrum.

These services originated about five years ago and grew out of the experience of US companies forced, through US state banking laws, to telephone their banks in different states to assess their cash position.

The earliest computerised cash management systems, produced by aggressive US banks like Citibank and Chemical Bank did little more than automate the manual process. With the advent of the professional personal computer, however, the concept of the "treasury workstation" became a reality.

In addition to simple monitoring, such a system could make transfers between accounts, make payments to other organisations, make currency exchanges and deliver other kinds of instructions.

It could also provide decision-making aids such as interest and exchange rates and calculation tools.

The Butler Cox report notes: "As a specific example of one such tool, multilateral netting systems help companies with subsidiaries in many countries to minimise the numbers and amounts of intra-company payments, and this funds transfer and currency exchange costs.

"They calculate the minimum net payments equivalent to a complex pattern of transactions."

The cash savings can be substantial. BP, the UK oil major, with an annual foreign exchange turnover of $80bn, says that an improvement in efficiency of less than 0.1 per cent would justify the cost of the system.

Smaller companies, however, have little need of such sophisticated services.

This has resulted in a new direction and new lease of life for an electronic service which many believed to be a failure—home banking.

For home banking, in fact, read cash management for the individual. The theory was that individuals would find it attractive and convenient to check the balance of their accounts, pay bills and transfer money between accounts using terminals in their homes—either personal computers or viewdata television sets.

The pioneers in the US were Chemical Bank with its "Pronto" service, Citibank and Chase Manhattan. In France, banks were able to offer home banking on the state-funded Minitel viewdata terminals. In the UK, the Nottingham Building Society led the way with the Bank of Scotland in hot pursuit.

Reality, however, failed to match the theory. Butler Cox says: "The market for home banking has developed much more slowly in most countries than many early forecasts expected and many service providers would have liked."

* *Information Technology and Cash, Butler Cox, London, January 1986.*

Alan Cane

HOW THE TOP TEN U.S. BANKS FARED IN 1985 ($ Millions)

Name	Assets ($bn)	1985 net income	% change on year	1985 provision for loan losses	'85 reserve for loan losses	As % of total loans	'85 non-performing assets	As % of total loans	1985 ROE	1985 ROA	Primary capital ratio	Market capitalisation
Citicorp	173.8	998.0	+12	1,243.0	1,229.0	1.03	2,200.0	2.0	15.1	0.62	6.40	7,698
BankAmerica	118.5	(337.0)	n.m.	2,180.0	1,584.0	1.88	3,423.0	4.05	(9.74)	(0.28)	6.34	2,560
Chase Manhattan	87.7	564.8	+39	435.0	908.0	1.47	2,000.0	3.3	13.6	0.65	7.04	3,414
Manufacturers Hanover	76.5	407.5	+15.6	622.8	813.8	1.39	1,530.0	2.62	12.33	0.54	6.41	2,155
J. P. Morgan & Co	69.4	705.4	+31.2	335.0	793.0	2.2	764.0	2.14	18.12	1.06	8.06	6,587
Chemical New York Corp	57.9	390.2	+14.5	281.4	587.9	1.45	1,185.0	2.08	15.06	0.70	7.20	2,568
Security Pacific	53.6	322.8	+11	379.4	554.4	1.50	1,134.0	3.1	15.5	0.69	7.08	2,947
Bankers Trust	50.6	371.2	+21	175.0	427.6	1.70	806.0	3.2	16.59	0.79	6.66	3,075
First Interstate Banc	49.0	313.1	+13.3	375.6	452.5	1.38	1,249.0†	3.82	13.31	0.67	6.37	2,741
First Chicago	38.9	169.0	+96.0	411.2	431.6	1.78	657.0†	2.72	8.33	0.43	7.34	1,624

† Non-performing assets

Research associate: Rivka Nachoma

The US

Greater attention to domestic business

IT HAS been another banner year for most of America's major banks. Profits, capital and loan reserves have been bolstered, and the recent collapse in world oil prices will help the bulk of the banks' hard-pressed customers.

Admittedly, the drop in oil prices is exacerbating the problems of some of the banks' most problematic customers. Overseas oil producers, like Mexico and Nigeria, and domestic energy producers are giving bankers some headaches. But overall, America's banks are benefiting from the drop in oil prices. On Wall Street, money centre bank stocks have been strong for some time, and investors appear to have shrugged off any concerns about the negative impact of lower oil prices.

Only the banks in the south-western energy-producing states of Texas, Oklahoma and Louisiana have been hurt by the drop in the crude oil price; and the assumption is that the US authorities will be able to handle any financial crisea which might occur among these banks.

With a little prodding from the regulators, the Dallas-based Interfirst and the Houston-based First City Bancorporation of Texas, have both cut their dividends; and several of the other banks have announced major loan write-offs. Their capital is stronger than most, and they have larger-than-average loan loss reserves. In addition, US bank regulators are taking a much more sympathetic approach to the problem banks. Whereas, last year, US bank regulators were calling for tougher capital requirements and more stringent accounting standards, they have been quietly back-pedalling in recent months as the problems of the 500-plus US energy banks mount. Most banks had been assuming that oil prices would not drop below $25 a barrel and were not expecting the precipitous drop to a low of $9.75 a few weeks ago.

The problems of US energy banks have come at a time when US bank regulators are struggling with the continuing severe financial problems among many of the country's 5,000 farm banks. Depressed commodity prices, heavily indebted borrowers and steadily falling land values have undermined the credit quality of many banks, and forced them either to slow down or to halt their new lending.

These factors have led to a noticeable relaxation of standards among the US banking regulators, say many analysts. The regulators were caught unprepared for the massive run, in 1984, on Continental Illinois, the big Chicago bank, and they do not want a repeat performance. Confidence in the US financial system is fragile, and last year's deposit runs at privately-insured savings banks in Maryland and Ohio have underlined the speed with which financial panic can spread.

For these reasons, a new generation of US bank regulators, led by Mr Bill Seidman, chairman of the Federal Deposit Insurance Corporation, and Mr Bob Clarke, comptroller of the currency, have been easing the rules for institutions which are believed to have a chance of recovering over the medium term.

Capital ratios are being relaxed for problem institutions, and the regulators have been quietly making sure that adequate safety nets are in place, just in case a major problem bank shows signs of stepping beyond the point of no return.

Barriers to interstate acquisitions can be dismantled in case of an "emergency," and the Federal Reserve is helping by maintaining an accommodative money policy. Falling interest rates can mean the difference between life and death for some of America's hard-pressed financial institutions, and, although the record pace of 100-plus bank failures in 1985 is expected to continue in the current year, analysts say that the general health of the US banking system is on the mend. Some might add that it is not before time.

The most visible change in the banking system over the past couple of years has been the gradual withdrawal of US banks from the international banking market. After the heady growth rates of the late 1970s and early 1980s, balance sheet growth has slowed. Emphasis is on quality rather than quantity of profits these days, and the love affair with international banking, which led to the swollen balance sheets, has cooled visibly.

US banks are concentrating increasingly on their domestic business. The major money centre banks, like Citicorp and Chase Manhattan, continue to be major factors in the international banking market; but the days when this side of a bank's business was the route to the top job in the bank have almost disappeared. Retail bankers, like Citicorp's John Reed, are the executives now being picked for the top jobs in US banking. The international bankers are being left to sort out the bank's problem loan portfolio in the Third World.

While the majority of the big US banks turned in strong performances in 1985 — the main exception being BankAmerica which reported a net loss of $337m — Wall Street continues to view negatively their heavy exposure to the Third World countries. Although most US banks have not been increasing their exposure, the sums are still large relative to their capital base, and this has been reflected in a relatively lowly stock market rating.

Despite the size of their balance sheets and their influence in the business community, most US banks are not large in terms of stock market capitalisation. At the end of March, for example, Wall Street valued Citicorp, the biggest and most successful US banking group, at $7.7bn, and J. P. Morgan at $6.6bn. It may sound a lot, but it is small by comparison with institutions like American Express and General Motors, which are capitalised at roughly twice and four times.

These sorts of statistics explain why America's banks are rediscovering the domestic marketplace. The regional banks — once regarded as the poor relations of the banking community — are now the favourites of Wall Street's investment analysts. They are not weighed down with loans to heavily indebted Third World countries, and they are normally based in fast-growing parts of the US economy. As a result, they have been given premier ratings, and it is not uncommon for these banks to sell at more than two times book value and 20 earnings multiples which make big banks green with envy.

A growing number of bankers believe that the US banking system is about to undergo a major restructuring. There are various forces, such as economies of scale, which are fuelling the movement. Many of the regional banks have already formed themselves into sizable groups, such as First Wachovia and Suntrust banks, in order to compete with the big money centre banks.

However, many analysts believe that another wave of mergers is at hand. Wells Fargo's bid for Crocker National Corporation, which was gratefully accepted by Britain's Midland Bank, caught many bankers by surprise. Security Pacific, the powerful Los Angeles-based group, admitted that it would have liked to have a try at buying Crocker, but had assumed that the authorities would not allow it.

These perceptions are changing quickly in the US. BankAmerica, the sick man of the US banking industry at present, fought off an unwelcome takeover bid from Mr Sandy Weill, an ex-president of American Express, but not before it was revealed that First Interstate Bancorp of Los Angeles had offered to come to its rescue as a white knight.

Meanwhile, Chase Manhattan, the third biggest banking group, is planning to install some powerful anti-takeover provisions in its bye-laws to discourage predators.

William Hall

Canada

Crisis among small banks

THE CANADIAN banking system, proud of its almost unrivalled reputation for stability and integrity, has taken some hard knocks recently.

Since last September, two of the country's 14 domestically controlled banks have gone to the wall, the first bank failures since 1923. Another pair have been forced to merge with larger institutions and two of the remaining ten are still fighting to survive as independent entities.

Although the crisis among the small banks has pushed depositors towards the half-dozen institutions which dominate Canadian banking, the big six face problems of their own.

Competition has intensified both at home and abroad, forcing the banks to become followers rather than leaders in many spheres of their business. For example, the banks have lagged behind a handful of aggressive trust companies in extending banking hours in suburban shopping malls.

The plunging oil price has brought new concerns, drawing attention to the big banks' substantial exposure to Latin American energy producers, the energy-dependent economy of Western Canada and a number of very large corporate debtors in the North American oil and gas industry.

A commission headed by Supreme Court Justice Willard Estey is nearing the end of its inquiry into the collapse last autumn of Canadian Commercial Bank of Edmonton and Calgary-based Northland Bank. Judging by evidence to the commission, Judge Estey's report is likely to be critical of almost all the parties responsible for maintaining a sound banking system—government regulators, external auditors and the banks' own directors and managers.

Both Alberta banks were heavily exposed to the volatile, resource-based economy of Western Canada, but their problems appear to have been exacerbated by weak management and inadequate supervision.

The collapse of CCB and Northland has had far-reaching repercussions in Canada. It triggered a sudden outflow of wholesale deposits from other small institutions, straining their liquidity. A run on deposits forced Canada's eighth largest bank, Montreal-based Mercantile, to merge with National Bank late last year, and has led Continental Bank of Canada (assets C$5.1bn) and Bank of British Columbia (assets C$3.2bn) to seek liquidity support from the Bank of Canada and other sources.

Changes in the regulatory apparatus have been heralded by the early retirement of the Government's chief bank supervisor, Inspector-General of Banks William Kennett. Mr Kennett persistently complained that his understaffed office was unable to cope with a rapidly growing workload.

The small banks' troubles have been a mixed blessing for the big six—Royal Bank of Canada, Bank of Montreal, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Toronto-Dominion Bank and Quebec-based National Bank.

On the one hand, their reputation as secure pillars of Canada's financial system has been strengthened. But the demise of the regional banks has also heightened public suspicions of the powerful Toronto and Montreal-based institutions.

Over 750 communities in Canada are served by no financial institution other than one of the big banks. CIBC attracted a rash of unfavourable publicity during a seven-month long strike by workers at its Visa card centre and central mail-room last year.

Doubts about their motives are the last thing the banks need at a time when they are trying to defend themselves against the assertive, fast-growing trust companies. The trusts compete with the banks on a wide front, and have the added advantage of being allowed to offer fiduciary services and to be part of emerging financial conglomerates, like Trilon Financial (Royal Trust's parent), Genstar (which controls Canada Trust) and Power Financial.

The trusts also do not have the banks' exposure to troubled domestic and international energy loans. Canadian banks have advanced about C$7.8bn, equal to 1.9 per cent of their assets and more than half their common equity, to Mexico.

At home, some 7 per cent of total assets are in the form of loans to borrowers in Alberta. Canadian Imperial Bank of Commerce, Toronto-Dominion and Bank of Montreal have outstanding loans of C$2.6bn to a single borrower, the ailing Calgary-based energy producer Dome Petroleum.

One analyst observes that "in Mexico the Canadians can ride on the tails of the American banks. But in Alberta they've got the problems to themselves." Mr Terry Shaunessy, banking analyst at Merrill Lynch Canada, estimates that a trebling of non-performing loans in Alberta would dent bank earnings by 7-10 per cent and constrain future profit growth through the five-year averaging formula used to determine loan loss provisions.

There is a brighter side to the energy picture. Canadian banks' loans to Brazil, expected to benefit handsomely from lower oil prices, are of the same magnitude as their Mexican exposure. Similarly, losses in Alberta may be offset by economic growth in oil-consuming Ontario and Quebec, Canada's industrial heartland.

Bernard Simon

How the six largest banks performed

(Three months ended January 31 1986)

	Assets C$bn	Net income C$m	Return on assets %	Ratio of assets to capital and reserves
Royal Bank of Canada	96.7	140.4	0.58	22.84
Bank of Montreal	84.6	98.3	0.47	23.77
Canadian Imperial Bank of Commerce	78.9	87.0	0.44	23.30
Bank of Nova Scotia	61.30	73.8	0.48	23.35
Toronto-Dominion Bank	53.5	95.1	0.73	19.07
National Bank of Canada	25.1	45.3	0.71	21.26

Source: Canadian Bankers Association.

President Jose Sarney of Brazil . . . In a surprise decree, he froze prices, gave a one-time boost to salaries and introduced a new strong currency

Brazil

Management takes the strain

BRAZILIAN bankers closed 1985 posting record earnings, weathering a shock to the financial system provoked by the failure of six banks last year, only to confront the need to rethink their business as the economy moved overnight from expecting 300 per cent inflation to zero.

On February 28, President Jose Sarney, in a surprise decree, froze prices, gave a one-time boost to salaries and introduced a new strong currency, the cruzado (equivalent to 1,000 old cruzeiros and US$13.81, as part of a major economic stabilisation plan forcefully to wipe out inflation. Everyone applauded.

Banks, the industry hardest hit by the reform, allege staunch support for the reforms even as they face declining earnings. With a stable currency and no longer expectations of monthly rates of inflation running at 15 per cent or higher, Brazilians have stopped racing to banks to apply funds overnight before their money starts to lose its value.

Funds are now being left in sight deposits, which banks say have doubled in volume since the reforms were put in place. That would appear to be a healthy development for most banking systems, but in Brazil it is novel and welcome.

Before the economic reforms, banks invested in far-flung branch networks and collection posts, electronic funds transfer systems, and other services designed to attract the maximum volume of funds for deposit or one or two day float. The sheer float related to these funds, usually invested overnight in treasury bills, yielded income to banks with virtually no interest expenses.

As one Brazilian banker explained: with even modest interest rates of 10 per cent a month, return on overnight placements of $50m earned banks $5m a month. Monthly rates were running at 15 to 20 per cent before the reform. Now banks are fighting over clients, offering interest rates of 1.5 per cent for prime clients and as much as 2 per cent for others. Bank income has fallen drastically, while fixed costs have not.

Predictably, banks are taking a harder look at their costs, and plans call for sizeable reductions in computerisation, electronic transfers and personnel. Brazil's largest private bank, Banco Brasileiro de Descontos SA, Bradesco, invested $10m a month last year in electronic equipment and created 130 new jobs a day, to staff its 2,000 branches. ITAU, the country's second largest private bank, also made large investment in electronic technology for its operations.

Large banks now question whether they need their sophisticated communications systems, which cleared funds countrywide in 24 hours.

Mr Hans Heidmann, director of Bradesco's international division and investment bank, said the bank had stopped hiring and slowed new investments in equipment while it analysed which banking posts and branches were only profitable at higher revenue levels.

"We no longer need a wide empire to fetch deposits by motorboat in remote regions in the Amazon," he said. Services more commonplace than this were not charged to clients in most banking institutions.

Banks are just beginning to charge fees for services, analyse which products are profitable and look more to spreads on loans for profits. One foreign banker commented that banking in Brazil now requires attention to productivity, a concept still alien to many financial institutions here.

While banks see the focus of their financial operations changing, many are still loath to take drastic decisions in massive dismissals of personnel or discontinuing certain services until the new economic measures have been in place longer. Lloyds Bank International's general manager, Mr Frederick Gibbs, said the degree to which a bank reacted now was "a test of its management, because it may take the rest of this year to get an accurate feel for how banks have been affected."

Bankers seem to agree that, in the long run, if Brazil can reduce its inflation with these economic reforms, the financial system will be stronger. However, in the short run, the banks face the prospect of earnings far below last year's average return for 65 private commercial banks of a 45.9 per cent real increase in net profits.

Ann Charters

BRAZIL	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−1.6	0.9	−3.2	4.5	7.0
Inflation (%)	105.6	98.0	142.0	196.7	227.0
Current Account Balance (US$m)	−11,761	−16,312	−6,837	42	−500
Exchange Rate: Cruzeiros vs US$	93.1	179.5	577.0	1,848.0	6,200.4
Trade Weighted Index (1971=100)	6.06	3.45	1.18	0.39	0.12
Real Trade Weigh. Ind. (1971=100)	91.60	94.31	81.70	84.67	81.14

MEXICO	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	7.9	−0.6	−5.3	3.7	3.9
Inflation (%)	27.9	58.9	101.8	65.5	57.8
Current Account Balance (US$m)	−13,899	−6,218	5,328	3,966	300
Exchange Rate: Pesos vs US$	24.51	56.40	120.09	167.83	256.87
Trade Weighted Index (1971=100)	56.39	25.31	10.38	8.60	5.31
Real Trade Weigh. Ind. (1971=100)	118.04	78.14	62.88	85.46	74.20

Argentina

Reforms slow to come

EXPECTATIONS of a reform of the Argentine financial sector, promised by the Government since the return to civilian rule 2½ years ago, have ebbed and flowed during the past year.

Statements recently by central bank directors Salvador Treber and Jaime Baintrub have confirmed the view that officials are not likely to make significant system-wide changes in the immediate future.

However, the postponement of government action in the financial sphere may be the one case in which delayed action yields positive results. With seven months of the Austral Plan under its belt, it is clear that the Government's earlier tactics, such as a shoot-from-the-hip closing of bank branches, have been discarded, and that reform will be a more sophisticated and negotiated restructuring.

Citibank vice-president Al Miro used the metaphor of a flood to explain how near-hyperinflation distorted understanding of financial sector problems. "With the inflation rate over 20 per cent a month, the whole system is under water. It's only when the flood subsides that you can see what damage has to be repaired."

What the receding waters have revealed is a financial system that pleases no one. With interest rates of 5 to 7 per cent a month, little available credit and none long term, low bank earnings, falling sectoral wages and a cloud of uncertainty over the whole system, bankers, employees, government officials and private businessmen agree that something should be done.

The system's major faults are over-dimensioning, a deformed asset base, and fragility. The dramatic reduction in inflation has only emphasised the weaknesses, while hinting at possible compensating factors.

Another legacy of the period of financial expansion and high inflation is to be seen in disproportionate amounts of fixed assets held by the financial sector. This adds a dimension to the question of reform.

The book value of these fixed assets is considerably greater than their market value, which means that in any rationalization of the financial system, losses will have to be registered somewhere.

According to former central bank director Ricardo Mazzorin, financial institutions currently claim $2.4bn in fixed assets, while a private sector source estimated the market value loss to be a minimum of 20 per cent.

The fragility, or level of solvency, of Argentine financial institutions is said by some banking analysts to be another factor calling for reform. As many as 110 small institutions, they claim, are edging into the red, while five to eight relatively important entities need serious restructuring.

At the heart of the debate over the financial system is, who or what is responsible for its high costs. Bank spreads are about 2 per cent a month in Argentina, compared with 0.05 to 0.07 per cent in other financial systems. What this means is that, if inflation and time deposit interest rates were to reach zero, loan interest rates would still be over 20 per cent a year.

Bankers and banking associations have been quick and persistent in their responses to charges of *sucursalismo*, or the over-extension of branches. The association of private Argentine banks (ADEBA), in a strong statement, said the level of inefficiency in the banking system is no greater than the average inefficiency in the Argentine economy as a whole — cold comfort, indeed. The high cost of financial intermediation, ADEBA explained, is the result of the reduced size of the market and various plagues of government intervention.

Another key factor is high labour costs. Although the financial sector has fallen from 3.6 to 1.8 per cent of GDP, the number of employees has not declined, and salaries have not gone down in proportion to other economic sectors.

Bankers gripe about red-tape aspects of government regulation (an ADEBA study shows that one employee in two, in trade finance, does nothing but fill in forms). But their real complaint is more fundamental.

Current levels of Central Bank-dictated reserve requirements immobilise 90 per cent of deposits, placing serious limits, they maintain, on their ability to circulate funds and therefore to reduce the cost of borrowing.

"High reserve requirements," says former economy minister Jose Maria Dagnino Pastore, "transfer the Government's financing problems on to the private banks."

Since April 1985, this process has been accomplished by requiring the banks to purchase government bonds at below market interest rates. Not only does this requirement leave banks with greatly reduced funds for lending to the private sector, but it increases government indebtedness through the interest rates that are paid on these funds.

The exact amount that banks have available to lend is a matter of debate. Analyst Rodolfo Rossi's calculations leave 22.36 Australs available for loans, but several bankers, and ADEBA itself, say that the proportion is only 10 of every 100 Australs.

On the other hand, one foreign bank executive says: "This claim distorts the truth—which is bad enough." If previously existing lines of credit are taken into account, banks are lending significantly greater amounts.

The serious problem behind the combination of high reserve requirements, high levels of rediscounts and low loan volumes is that, to continue supporting rediscounting credits, the authorities must keep private financial institution reserve requirements high. This means that credit remains scarce and expensive, and economic expansion in the internal market illusive.

Bank and economic authorities fear that any easing up on credit will result in increased inflationary pressures and capital flight. The view is not without its critics.

With pressures for reactivation mounting from industrial, labour and farm sectors, the issue of credit expansion and high interest rates becomes daily more tense and will keep the problem of financial reform simmering.

One indication of the future direction of government actions in the financial sphere is due soon. In January, BCRA director Guillermo Feldberg announced that the fate of the Banco de Italia would be decided within 90 days. The eighth largest bank, the Banco de Italia was closed down briefly in May 1985, only to be re-opened due to strong pressures from union and political groups.

The Government has said that it wants to re-privatise the entity as a whole, but bankers say that splitting it up may be the only way to attract buyers.

Charles South

Mexico

Domestic borrowing problem remains

ALMOST THE sole function of the Mexican banking system in the past 11 months has been to finance the Government and its growing deficit. This has had the side-effects of stimulating the non-bank financial sector and forcing the banks, nationalised in 1982, to become more competitive.

Banks currently have 93.2 per cent of all their resources earmarked for government disposal. This is double the previous reserve requirement, and was introduced last July, originally for three months, to curtail a premature expansion of the economy (which was cutting badly into the forecast current and trade account surpluses), and also because the Government could not keep up with its domestic borrowing needs.

But interest rates were then set in terms of these needs, leading to a fall in bank deposits in real terms, and a growing inability to place treasury bills, in the last quarter of 1985. The Government then reverted to a high interest rate policy in a bid to strengthen savings and deter capital flight. Three-month treasury bills are now hovering at about 80 per cent, against an annualised inflation rate in March of nearly 64 per cent.

After falling to about three quarters of their value 15 months ago, after inflation, bank deposits began to pick up again in March. But the domestic borrowing problem remains. The Government originally budgeted to pay out about $12bn, or 8 per cent of GDP, on its domestic interest bill this year, about 50 per cent more than its foreign debt interest bill.

The damage caused by last September's earthquakes, added to the estimated $7bn tax shortfall this year as a result of the oil price collapse, is likely to raise the domestic interest bill, even after allowing for new foreign credits now being negotiated. The public sector deficit is unofficially expected to reach 10 per cent of GDP, twice the original target before the oil price tumble, and the domestic interest bill will account for practically all of this.

From the government's point of view, the high interest rate strategy can work if rates now top out. For this to happen, it will have to trim the public industrial and administrative sector, and secure new foreign credits, in order to reduce its domestic deficit financing needs.

The squeeze on the private sector also should have two positive macro effects. The lack of local credit is forcing companies to import dollars from accounts held abroad—some $700m has returned in the first quarter according to one estimate—one of the main reasons for the current stability of the peso despite the oil price fall. Second, virtually the only credit available to the private sector from the banking system is linked to exports.

This unprecedented credit squeeze has led to the expansion of the non-bank financial sector which, taken as a whole, now channels about a quarter of national savings from an almost insignificant proportion in 1982.

Stock brokerages, whose role was greatly strengthened by the return to the private sector of brokerages formerly owned by the expropriated banks, now account for some 17 per cent of savings.

Forced by the squeeze to seek out credit where it can, the private sector has pulled the non-bank financial markets along at breakneck speed, with new instruments appearing on an almost monthly basis. The over-the-counter commercial paper market, for example, is estimated to have risen to a total of Pesos 300bn against Pesos 6bn a year ago. The value of bank acceptances channelled by the brokerages last year rose over 1,000 per cent.

The banks themselves have begun to break into money market areas that the private sector is opening up, both to squeeze out more funds for lending on to their private clients and to squeeze out higher yields than they are offered by government. The two largest banks, Bancomer and Banamex, who together account for nearly half of all deposits, are better placed to do this than their smaller colleagues, some of which may end up being absorbed because of the pressure of lowering profits and rising costs. The number of banks has already been reduced to 19 from 59 at the time of nationalisation.

The squeeze is also promoting a form of concentration in industry. The more liquid large companies are becoming a pole for smaller companies as the OTC inter-company lending market grows.

David Gardner

FINANCIAL TIMES

WORLD BANKING

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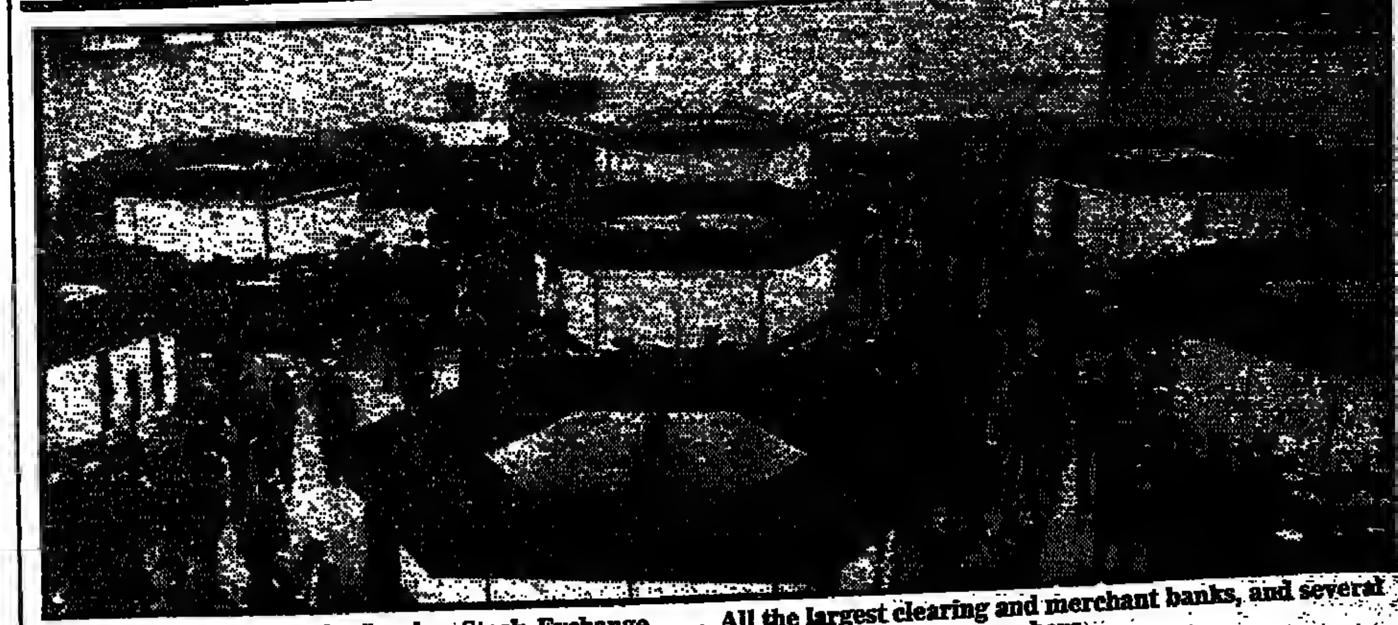

The trading floor of the London Stock Exchange . . . All the largest clearing and merchant banks, and several foreign ones, have mapped out strategies to become members

The UK

Waiting for the Bang

WITH THE Big Bang only five months away, UK bankers stand on the threshold of what are, by any standards, extremely interesting times.

On October 27, the deregulation of the City's financial markets will add a new dimension to British banking by giving banks their first opportunity to break into the domestic securities business, at a time when "securitisation" is all tha rage.

All tbe country's largest clearing and merchant banks — and several foreign ones, too—have now mapped out their strategies to become members of the Stock Exchange and dealers in gilt-edged stock in order to take advantage of this opening. Most of them have bought stockbroking and jobbing firms, though some have preferred to go ahead on their own.

Whichever route they have chosen, though, they will be spending a busy summer putting the finishing touches to their new securities subsidiaries, recruiting staff and installing the complex technological back-up needed for a modern dealing operation.

These subsidiaries vary enormously in size. At one end of the scale there are sizeable investment banks, like National Westminster Bank's NWIB which will be capitalised at £300m, with ambitions to become global securities operations able to originate and distribute issues for their clients in a wide variety of markets. At the other, there are small bank-broker alliances that will seek out "niches" in the home markets.

The main thrust of all these changes will be to boost the supply of banking services to the big corporate market. For the smaller bank customer and the consumer, the benefits—if any—will be slower to come through. But with the growth of private share ownership and other government-inspired measures to stimulate grass-roots investment, the banks have ample scope to supply more investment services through their branch networks.

More broadly, the question of what happens after Big Bang is very hard to answer. There is apprehension that intense competition and unfamiliarity with securities' markets will land banks with losses. On the other hand, the banks that get it right could make big inroads into new markets, and gain a standing that will benefit them not just in the UK but globally as well.

Not all UK banks see this as their main thrust, though. Lloyds Bank showed its more conventional tastes with its recent £1.17bn bid for Standard Chartered Bank, which would create the UK's largest banking group.

The rationale behind the bid is to form a wide-ranging international bank, with an emphasis on traditional services like loans and trade finance. Lloyds and Standard are — conspicuously — the two largest banks to decide not to buy stockbrokers for the Big Bang, which gives them something in common, though Standard rejected the bid.

UK Bank Profits

	1985	1984
	£m pre-tax	
Barclays	854	623
Lloyds	561	468
Midland	351	135
NatWest	804	671
Standard Chartered	268	240

But even if tha City of London was not going through the great upheavals of deregulation, UK bankers would have good reason to think themselves fortunate to be living at this hour: business is booming new markets are opening up before them (largely thanks to new technology) — and the Chancellor of the Exchequer spared them a much-feared financial services tax in his March Budget.

Profits are also soaring: the Big Four, Barclays, Lloyds, Midland and NatWest, boosted pre-tax earnings by 35 per cent last year, and made bank shares the Stock Exchange's darlings. Barring disasters, City analysts are looking for a repeat performance this year, which should bolster confidence in the banks' ability to withstand the shocks of the Big Bang.

A good part of this rise, admittedly, came from the Midland Bank which is recovering from its traumatic acquisition of the loss-making Crocker National Bank in 1980. Pre-tax profits more than doubled, from £135m in 1984 to £351m. But Crocker is shortly to be sold off, reversing what must surely rate as one of the most ill-judged steps ever taken in banking. The sale will leave Midland with over $1bn in cash, and a much better chance to stake out a place for itself in the new banking markets.

The big clearing banks' better performance owes a lot to the healthier state of the UK economy. Loan losses are easing off, and most banks were able to reduce their provisions for bad and doubtful debts last year, though not by much. Barclays, for example, set aside a hefty £416m, which was £53m less than the previous year.

Thanks to a new type of security devised by Lloyds Bank — and approved by the Bank of England — UK banks have been able also to boost their primary capital by selling large amounts of perpetual debt stock. NatWest is about to raise £714m in the UK's largest ever rights issue. Capital ratios are now back to the 1970s levels.

The banks' better condition has also enabled them to deal much more forcibly with the competition from their arch-rivals on the domestic front, the building societies. Thanks to more aggressive and imaginative marketing — and new departures, like Saturday opening and free-if-in-credit banking —the banks have managed to hold their own, if not actually win back market share.

But this competitive threat will get stronger. Later this year, new legislation will allow the building societies to offer banking-type services, such as unsecured loans and credit cards. The forthcoming flotation of the Trustee Savings Bank — though delayed by legal wrangling — will also launch a powerful new competitor on tha market.

Nor has change spared the Bank of England. Eighteen months after being forced to buy the crippled Johnson Matthey Bank, it has managed to re-sell the healthy parts to Westpac of Australia, and thus wind up one of the most nightmarish episodes since the secondary banking crisis of the 1970s. However, the JMB legacy will live on in the form of a tougher Banking Act, now under preperation, designed to prevent further such crises.

The new Act will give the Bank broader supervisory powers over the 600 or so banks that operate in the UK. The Bank itself has also reorganised its top supervisory team to keep closer tabs on the changes brought about by the Big Bang, particularly the move by banks into non-banking business. Underlying all these changes, though, is a recognition that, for all its failings, the UK bank regulatory system is probably one of the most flexible there is, and that this quality should not be impaired.

David Lascelles

Isle of Man

A 'respectable satellite'

THE ISLE OF MAN is still in the little league when it comes to world banking. About 18 months ago there was much local satisfaction when deposits in the island's banks passed the £2bn mark; but Jersey, the biggest of the Cbannel Islands, was already at £19bn.

Should such a comparative tiddler be taken seriously, then, in the global market? The answer is summed up by the island's Banking Inspector, Jim Noakes. He says the world's financial centres of London, New York and Tokyo need respectable offshore satellites: the Isle of Man is the only one left with real room for growth.

The £2bn deposit base is not so much a symptom of backwoodedness as under-development. With growth spurting last year to 30 per cent and a Government mission to New York to sell the island's virtues, there are signs that the Isle of Man has woken up.

Moreover, growth has been deliberately dampened in the past four years while the island recovered from an event that shook it to its millenial roots—the collapse of the privately-owned Savings and Investment Bank with £40m of depositors' money in 1982.

This was small beer on a world scale of banking disasters; but its effect on the local community was disproportionale, because many of the lost deposits were the private savings of island people. The judicial report on the collapsa has yet to be published and, until it is, msny involved with developing Man's financial sector believe that the SIB's ghost will never be laid.

However, that should not detract from what has been done to put things right, mainly by setting up a proper structure of financial supervision. There is e permanent commission, headed by Mr Mark Solly, a lawyer whose books on tha island's taxation and commarcial laws are standard works.

There are also two inspectors, Mr Duncan Neil (for the insurance industry) and Mr Noakes (for the banks). Inspection standards have been so tough that some of the offshoots of UK banks on the island think they may have gone too far the other way.

But the view was that over-compensation was the only way to be certain of building international confidence. The SIB collapse suggested that previous standards were not good enough. There was probably little confidence sbroad anyway. The island's image was that of a backward, poorly regulated anachronism, years behind the times. If the island wanted to grow as an offshore centre, it had to demonstrate respectability.

An embargo on new banking licences stopped development while the inspection machinery was built. Only recently has it been lifted—and then initially for big names only. Mr Noakes says that there has now been further relaxation. Applicants can again be small, but they have to be able to prove that what they lack in quantity they make up for in quality.

Deposit-taking licences have therefore been issued to Clydesdale and TSB Scotland. Clydesdale is thinking about whether it should have a full banking licence, but the decision could be some way off. Why it had to be on the island, however, was because of customer demand. The introduction of composite rate tax in Britain in the 1985 Budget did not sit well with depositors who wanted their interest paid gross.

All banks on the Isle of Man immediately found themselves writing record business with new, relatively small depositors. Mainland UK banks without deposit-taking branches on the island were in danger of losing out.

Mr Noakes says that serious inquiries are coming now from "very high quality" sources.

He believes that they are getting the Isle of Man's message that no other offshore centre offers the same mix of political stability, clear banking supervision, an English-based system of common law, low operating costs and room for growth.

Though the Channel Islands resent it, the Isle of Man's assertion that they are comparatively full up is not hard to impress on visitors doing the rounds of UK offshore centres. There are only 65,000 people on Man, with 221 square miles of largely empty rural, mountain and rugged seaside scenery in which to circulate. The climale may be variable, but the Gulf Stream keeps it mild. Moreover, housing is relatively cheep and roomy, and the streets are safe. So, Mr Noakes hopes, are the banks.

Ian Hamilton Fazey

Channel Islands

Foreign exchange deals on the rise

IT WAS far from being just a polite term for tax haven when Douglas Hurd, the Home Secretary, on a recent official visit to Jersey and Guernsey, described the islands as "financial centres."

The Channel Islands have outgrown their role as primarily offshore deposit-taking bases. Upwards of £4 billion is invested in mutual funds managed from the islands, and international trust business is also substantial. (Jersey now has its own trust law and Guernsey is soon to follow).

There had been a marked increase in foreign exchange and other dealing locally, as against reliance on the City of London, and a Channel Islands Forex Association formed last year, has more than 130 members.

An emerging money market within the islands has prompted the Union Discount Company of London to open a full branch in Guernsey, joining another leading discount house, Cater Allen, which has been trading in Jersey for over a year.

The Guernsey subsidiaries of the Bank of Bermuda, Manufacturers Hanover and N. M. Rothschild have independently joined the Brussels-based SWIFT network, establishing the island as a separate country under this world-wide financial telecommunications system.

Twelve US and four Canadian banks are among Jersey's 45 and Guernsey's 36 banking groups. Most EEC countries have at least one banking presence in the islands, and Australasia, India and South Africa are also represented.

None of them is just a nameplate. They have substantial, fully staffed offices, and many are currently expanding. Chase Manhattan is investing £10 million in buying two new five-storey office blocks in Jersey's capital, St. Helier, while the Bank of Bermuda and the Royal Bank of Canada are both undertaking major developments in St Peter Port, Guernsey.

The Channel Islands are now highly selective in admitting new banks. The first allowed in to Jersey for some time, Svenska International, has just been licensed and is to operate a "managed" branch, looked after by chartered accountants Turquands Barton Mayhew & Co. A similar arrangement has been used since 1984 by the South African Nedbank, whose Jersey branch is managed by RoyWest Trust Corporation.

Guernsey's doors have been slightly more open, and the past year has seen the arrival of the Canadian Imperial Bank of Commerce, the Republic National Bank of New York and—the latest comer—Crédit Suisse, which has set up both a subsidiary and a branch. The Zurich-based Rothschild bank is also to open a Guernsey office.

Total bank deposits in the Channel Islands, including those held by branches of the UK clearing banks, are close on £30bn. Of Jersey's £22.5bn, the equivalent of £16.4bn is in non-sterling currencies.

The repercussions of Big Bang have been felt so far mainly through the new affiliations of London stockbrokers operating locally. One thing the bankers do not want to see coming to the islands is the City's six-figure salaries and "golden hellos," because staff recruitment is an acute problem in communities where housing is tightly controlled.

Jersey already has a powerful tool to contain business and staff expansion in its Regulation of Undertakings and Development Law, and Guernsey is proposing to introduce a similar measure to try to prevent overheating of the financial sector.

Guernsey's present thinking is that this should be combined with what, in effect, would be a counterpart of the UK Financial Services Bill (but statutory, not self-regulatory), controlling collective investment schemes and other operations, such as private trust companies not covered by existing local legislation.

Edward Owen

West Germany

Few clouds on the horizon

EVERY silver lining bas its cloud. That may seem a kill-joy remark to make about the West German banks, which are well into what looks like another bumper year after the record results of 1985.

But amid tbe euphorie of increased profits and (generally) higher dividends it is fair to sound a warning notc.

First the good news. The banks operated last year against a background of stronger economic growth at home, with lower inflation and interest rates, and no major new flare-up of the international debt problem.

This year economic growth, buoyed up in part by lower oil price, could well rise to 4 per cent (2.4 per cent before), accompanied by still lower interest rates and almost stable prices in general.

The oil price cut should also help ease tbe pressure on several debtor states to which the West German banks (among others) have lent funds, even though it will obviously worsen the problems of oil exporters like Mexico.

The Bundesbank (central bank), played a crucial part last year in two ways: It coaxed domestic interest rates down while playing a key part in the successful international efforts to achieve a lower dollar rate.

It was able to perform this monetary high wire act without tumbling, not least because it has greatly refined its open market operation and increased their effectiveness.

In addition, at least as importantly, the Bundesbank took action to boost the attractiveness of West Germany (especially Frankfurt) as a financial centre. From last May new financial instruments on which the Bundesbank previously frowned have been permitted. They include zero coupon bonds and floating rate notes.

Foreign banks incorporated in West Germany are also now allowed to lead-manage Deutschemark Eurobond issues. The trend is continuing this year in that the Bundesbank has slightly modified its tough minimum reserve requirements and is now giving the green light to the use of certificates of deposit.

Moreover, last year brougbt an unparalleled stock market boom witb share prices rising to record heights and a bevy of interesting new issues, culminating with tbe announcement at tbe year's end that the huge Flick industrial group was being brought to the bourse.

True, much of the stimulus came from foreigners buying Deutschemark assets in tbe (correct) expectation of a mark appreciation. But even if the foreign input dwindles there are signs that the Germans themselves are at last losing their suspicion of shares as an investment.

After a first quarter of consolidation on the bourse, the outlook for tbe rest of the year looks good.

It is fair to say that if bankers had failed to make profits in this "dream constellation" they should have considered leaving the business. In fact they appear to have done extraordinarily well.

Taking the "big three" banks as an example, Deutsche Bank raised its group operating profit to more than DM 4bn for the first time, Dresdner Bank to more then DM 2.5bn, and Commerzbank to DM 1.5bn.

Not only could the banks bolster their already copious loan-loss provision, they could also take advantage of the booming stock market to raise their capital.

As a result the tougher capital-lending ratios of the revised German credit law, which once seemed a difficult hurdle for some banks to take, no longer cause much worry to anyone.

What, then, are the factors which take away a bit of the gloss from this picture? Some are technical, but not unimportant for all that.

It does not make a lot of sense for the Bundesbank to try to open up the market for some new financial instruments on the one hand but for the Finance Ministry in Bonn to maintain a tax (stock market stamp duty) which means that pretty well all the secondary trading goes to London.

That has happened with floating rate notes and no doubt will also happen with certificates of deposit. Moreover, in two other respects mountains of discussion seem to hava brought forth some rather grey little mice.

The Bundesbank has been half-hearted in cutting minimum reserves, an instrument whose true importance has surely faded over the years, and the contours of the much-lauded reform of the German stock market structure remain vague—for all tbe euphoria over soaring prices and new issues.

West Germany has long been a heavily-banked country—some would say overbanked—with one full-time branch for every 1,500 people. Competition between the "big" commercial banks, regional banks, savings banks and co-operatives is tough and getting tougber.

Now more foreign banks (tbe Swiss "big three," for example, over the past year or so alone) are moving in to take advantage of the capital market liberalisation to scoop up new industrial customers, especially the often export-oriented and profitable medium-size companies.

On top of that the insurance companies are mulling over how they might be able to offer broader financial services to their clients. All that is nice for the customers but it poses a tremendous challenge, as well as new opportunities, for the German institutes.

This leads to another question: where have the West German banks been winning their hefty earnings? Growth in interest earnings has been relatively restrained, with a fierce battle for "traditional credit" business and a more or less constant fall in margins (the difference between interest earned and paid).

That struggle will surely intensify and it will be bard indeed to push margins up again. Most banks report a sharp jump in commission profits, which is not surprising in view of the boom in securities business.

But here, too, the battle will intensify as banks seek fee-earning business which at least partly by-passes capital-lending regulations.

Finally, tbe banks have bad a bumper year in own-account trading, making record profits from securities and foreign exchange dealing. They can hardly rely on that result every time.

So long as the economic sun shines—and it looks set to do so for much of this year—the underlying problems for the banks are not readily apparent. Pretty well everyone is winning. But it would not take much—for example a US-led upward trend in interest rates, hurting the debtor states and the banks' home markets—to cast a thick cloud over the scene.

To the "old" risks of the debt problem must be added tbe new hazards (hard to assess) of Euronote back-up facilities, with which banking supervisors everywhere are trying to come to grips.

German banks have so far tended to be relatively sceptical of the revolving indemnity facilities and note issuance facilities market, but they would naturally be affected by any major upsets in that sector through inter-bank business—which many German institutes boosted strongly last year.

The clouds are not menacingly near, but it is well worth noticing that they exist.

Jonathan Carr

W. GERMANY	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	nil	−0.6	1.2	2.7	2.5
Inflation (%)	6.3	5.3	3.3	2.4	2.2
Current Account Balance (US$m)	−5,420	3,220	4,170	6,300	13,200
Exchange Rate: DM vs US$	2.26	2.43	2.55	2.85	2.94
Trade Weighted Index (1971=100)	147.64	156.89	167.28	169.81	174.88
Real Trade Weigh. Ind. (1971=100)	96.63	100.13	101.42	97.46	97.47

FRANCE	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	0.5	1.8	0.7	1.3	1.3
Inflation (%)	13.4	11.8	9.6	7.4	5.8
Current Account Balance (US$m)	−4,816	−12,082	−5,166	−876	300
Exchange Rate: Franc vs US$	5.43	6.57	7.62	8.74	8.99
Trade Weighted Index (1971=100)	92.27	80.89	87.44	85.79	89.24
Real Trade Weigh. Ind. (1971=100)	87.38	83.65	83.83	86.60	89.58

Under the government of Mr Jacques Chirac, France will progressively return to the private sector all the commercial banks nationalised by the Socialist administration

France

Sweeping changes ahead

FRENCH BANKS are facing a period of sweeping change. Their shareholding structures are already evolving as they prepare for the denationalisation planned by the new right-wing Government over tbe next few years.

Their regulatory environment is changing as France catches the financial deregulation virus from Britain. In some ways, liberalisation of the traditionally rigid Paris-based financial system over the past two years has gone faster than in the City of London.

Most of all the banks are having to tailor their own activities and services to shifting patterns in customer demand and an upsurge in competition both at home and abroad.

Banking in France has long been considered a safe and boring business. Over the next decade it is likely to become less secure but more exciting.

The process of denationalisation, although on the front page of the concert programme, represents only background music accompanying the more deep-seated orchestral changes affecting the banking community.

Under the legislation planned to be promulgated this summer by the government of Mr Jacques Chirac, France will progressively return to the private sector all the commercial banks nationalised by the Socialist government in 1982 as well as the Paribas and Suez financial holding companies and the Big Three — Banque Nationale de Paris (BNP), Credit Lyonnais and Société Générale — taken into state ownership in 1945.

President Mitterrand has already marked his distance from the legislation by declaring his refusal to sign decrees privatising companies and banks nationalised before be was elected in 1981.

This could hold up by a few weeks or months the legislation preparing the flotation of the Big Three.

But it is noted that BNP itself has already made a start in laying the groundwork for denationalisation by its issue of FFr 2bn-plus of non-voting shares (certificats d'investissment or CIs) announced in mid-April.

BNP is following in a long line of other financial institutions—Société Générale, Suez, Paribas and the Credit Industriel et Commercial group—which have already issued CIs during the past two years to bring in non-voting private shareholders and so prepare for denationalisation.

BNP's transaction will, however, give investors non-privileged dividend rights (unlike the other issues which were of preference shares). This should facilitate a later move to add voting rights to CIs as part of an eventual denationalisation package.

The Government is aware that if denationalisation is to succeed there must be a market for banking shares. This presupposes more efforts to increase the attractiveness and efficiency of the French securities market—continuing the measures of deregulation put into place by Mr Pierre Beregovoy, the former Finance Minister, and his team of advisers.

Mr Daniel Lebegue, the director of the French Treasury, has pointed out that no less than the survival of Paris as a financial centre is at stake as deregulation spreads around the world.

The spread of global securities dealing accompanying the dismantling of international capital barriers and the accelerating march of information technology is increasing the appetite of London brokers for dealing in French company shares.

Hitherto, however, the increasing sophistication of the French markets — including the opening of a financial futures exchange and early moves by banks and stockbrokers to combine — augur well for the markets' capacity to carry out denationalisation.

Successful sale of the banks to private shareholders also, of course, requires that the banks make sufficient profits and are adequately capitalised to attract outside investors.

Falling credit costs, which have reduced considerably the benefit accruing to the large commercial banks from their interest-free retail deposits, threaten profitability above all of the Big Three as well as other banks with large branch networks such as Credit Industriel et Commercial and Credit du Nord.

These banks put the cost of collecting their retail deposits at 7 to 8 per cent of the total. With money market interest rates at less than 8 per cent, the lowest for seven years, and with corporate customers squeezing margins on wholesale credit business, the fall in interest rates has spurred the banks to demand to be allowed to introduce service charges for cheque accounts.

The cost of processing cheques is put at about FFr 15bn a year—twice the commercial banks' profits. A portion of this now seems likely to be recouped with the introduction of charges from about the end of the year.

Banks are also turning increasingly to build up fee and commission business and also to expand into specialised credit areas—mortgages, leasing consumer credit and so on—which many have neglected.

The booming profits of Compagnie Bancaire and Sovac, the two main specialised credit banks, which have benefited greatly from persistently high margins at a time of shrinking returns on traditional banking business have persuaded the big retail banks to follow suit.

Besides, all the Big Three are actively building up investment banking activities to cash in on the buoyant state of French securities markets and growing demand for corporate financial services throughout French industry.

Paribas and Suez have shown the way here. With the two institutions profiting greatly from the boost in the value of their financial and industrial portfolios during three years of stock market boom, both groups are likely to be sold off to private investors at a considerable multiple of the price at which they were nationalised in 1982.

As for the other denationalisation candidates, much reshaping of the smaller banks nationalised four years ago will be needed.

The Big Three will also fare increasing problems in cutting their staff totals in line with slackening volume growth, shrinking margins and the rapid productivity improvements effected by information technology.

All this suggests that denationalisation will be a long and gradual business for most of the French banking system and that the restructuring seen in the industry over the past four years may now have to be put into effect among the hitherto protected banks as well.

David Marsh

The Netherlands

Automation takes over

IN ELECTRONIC banking the Netherlands bas lagged behind much of the western world but there is a growing feeling that it may have the last langh.

Now that many of the initial problems of security and "user friendliness" are being solved in compulerised banking equipment, the Dutch are stepping up their automation efforts.

"Electronic banking isn't a fat pot," explained Mr D. M. Van Wensveen, chairman of the directors of Bank Mees and Hope, merchant banking subsidiary of Algemenen Bank Nederland (ABN), the country's largest. "Our main goel is to strengthen the link with the client," be said during the recent unveiling of Mees and Hope's FL 36m automation programme.

Like their counterparts everywhere, Dutch banks are being forced into electronic banking. This bas more to do with intense competition in a beavily overbenked country than with cutting costs.

Tbe recent capital markets liberalisation granted wider freedoms to foreign banks, which had already built up a strong presence and now claim *about* one-quarter of *all* deposits. The US banks, in particular, are aggressively pusbing global electronic systems for cash management and funds transfer.

Computer bardware and software still cost more money than they save but in the long run tbey will cut expenses, many Dutcb bankers believe. In the short run the client benefits more thao the bank, but there is title alternative.

That is wby Amsterdam-Rotterdam Bank (Amro), the secood largest commercial bank in the Netherlands, recently introduced a two-way computerised informatioo system that gives large clients a broad oversight of their wbole portfolio and takes inatructions for transactions.

Amro's treasury management system is geared to big internatiooal companles and financial institutions, wbile Mees aod Hope is aiming at medium-sized concerns with its "Meesnet" electronic service designed to provide credit documentation and *foreign* curreocy information.

The most far-reaching automation programme is ABN's "open bank project," whose cost bas soared by 50 per cent to Fl 150m since it was announced a year ago. Under the five-year project extending to 1990, ABN's vast 700-brancb network will be refurbisbed witb comfortahle, living-room-like banking halls bousing computer terminals and friendly staff.

"The objective of this project is to enhance the quality of service to customers by speeding up the handling of across-the-counter transactions in our branches," Mr Robertus Hazelhoff, cbairman of ABN, noted in the annual results.

Loads of paperwork still bogs down most bank-counter transactions as few cashiers have access to computer terminals to cbeck customers' accounts quickly. Plastic bank identificatioo cards only began appearing about a year ago for eventual use to automated teller machines (ATM's).

At present, however, ATM's are painfully scarce and those that have been installed are more often in savings banks than commercial banks. The savings associations have moved mucb faster into computerised banking than their commercial *counterparts* because of their greater flexibility and competitiveness.

Rabobank, the main cooperative bank, is involved in a Fl 490m, decade-long automation programme until 1988. On-line computers and video display terminals are being installed to improve the service to customers.

Commercial bankers have baulked at paying between Fl 3,000 and Fl 10,000 for ATMs while a great debate still rages over the advantages of magnetic-stripe cards versus microchip cards. No more than one-third of all bank transactions are expected to be dona through the electronic funds transfer machines.

Much of the *future of* Netherlands electronic banking may be determined by a one-year experiment in the *province of* North Brabant using both magnetic stripe and chip cards to deduct petrol payments directly from their bank accounts.

Postgiro account holders are *using their magnetic-stripe* identification cards, while bank customers are using a card with a tiny *microprocessor imbedded* in it.

Plans for a smaller experiment with point-of-sale payment by microprocessor card have slso been announced by a group of commercial banks, sbops and the new Postbank, which now operates the Postgiro system. This system is safer from fraud—a growing worry—than the magnetic-stripe card and can also store more information. But the higb price, about Fl 25 for each card, is too much for many banks' at present.

The Postbank, a *merger of* the old postal giro system and the National Savings Bank, finally opened its doors on January 1 after a decade of proloofed discussions.

Its business area is still vague because of the intense political debate surrounding the merger of the two financial institutions which mainly serve the middle class. *It is still* unclear whether the Postbank will be allowed to engage in corporate lending, *for example*.

Where the Postbank could threaten the commercial banks, bowever, is in relail banking for private customers. While the Postbank's share of current account deposits bas dwindled in recent years to about 29 per cent in 1984, the new institution has started up much faster than expected.

The Postbank recently launched the Netherlands' first home banking experiment in *which* customers can do many of their transactions at bome by keying into a central computer. *They can pay* bills, make deposits and apply for travel *insurance*, for example, by connecting their personal computer or television to the Postbank computer *with a* modem.

In addition, the Postbank has launched a Fl 160m, five-year automation project that tech*nologically rivals* ABN's open bank project. Computerisation of "back office" functions plus a personal indentification number (PIN) code will quicken customer service.

ATMs will be installed outside post offices to offer round-*the-clock* banking, a convenience now taken for granted in many western countries but rare in *the Netherlands*.

Commercial banks also continue to face increasing competition from "near banks," which have capitalised on people's heightened awareness of the cost of money since the bigh interest rates of the early 1980s.

Nederlandsche Credietbank (NCB), which was completely taken over by Chase Manhattan Bank two years ago, has expanded its "direct bank." This offers *a full range of* services by telephone and mail instead of in the traditional branch office. The lower cost of operation is passed to customers in favourable interest rates.

Robeco, the $4.5bn Dutch mntual fund group that claims *to be the largest cluster* of funds outside the US, recently introduced a new product that *combines its* other *five funds*. Called Ro-Totaal, the new fund is reported to have surged nearly to the size of its more establisbed equity, bond and property funds since its launch in January.

The commercial banks accuse Cbase's direct bank and the Robeco group of riding on the back of the Giro system to bold down costs while luring depositora with attractive rates. Although the commercial banks *are increasing their share* of all sevings deposits, their profits are being squeezed by the narrower margins between *lending* and borrowing costs.

Bankers in the Netherlands, as elsewhere, are increasingly finding their profits in service fees instead of the traditional lending margins. But they are also quietly saying that they will bave to start charging private customers for more of the real costs of maintaining a current *account—probably as much* as Fl 700 a year.

Hitherto, corporate customers have been cbarged *higher* fees than in neighbouring countries so as to subsidise private customers, but that is expected to change. Retail customers may protest about bigber costs but tbe bankers argue that a fee-for-service system is the way of the future.

The relatively coddled Dutcb customer may soon learn what *many foreigners already know* that high-technology banking is costly.

Laura Raun

NETHERLANDS	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−0.7	−1.7	1.3	1.7	2.0
Inflation (%)	6.7	5.9	2.8	3.3	2.3
Current Account Balance (US$m)	2906	3700	3877	4957	5800
Exchange Rate: Guilders vs US$	2.50	2.67	2.85	3.21	3.32
Trade Weighted Index (1971=100)	123.28	131.20	136.25	136.06	138.38
Real Trade Weigh. Ind. (1971=100)	96.20	101.07	100.97	97.99	97.46

Luxembourg

Services for the rich

SLOWLY BUT aurely, the 118 banks io the Grand *Duchy* of Luxembourg are managing to wcan themselves away from wholesale banking.

Over the past few years, a new emphasis on banking services for ricb private individuals hes taken bold, and if Luxembourg still cannot rival Switzerland as a private banking centre, tbere is a growing sense of optimism that this new dimension can belp the Grand Duchy hold its own in today's very competitive markets.

Faced with a dwindling volume of credit business, and lower and lower margins, *many* of the banks that came to Luxembourg in tbe 1970's to *develop wholesale banking* business, bave made a conscious decision to fund management as a way of *boosting fee* income to bring a new, more secure stream of earniogs.

Fee income for the banks bas grown, though, according to the Mooetary Institute whicb is *responsible* for supervising the banks, it still makes up only around 20 per cent of total operating earnings.

Thus, Luxembourg stlll has a long way to go in becoming fully fledged as a private banking centre; but the evidence is that it ls now *making* inroads against other centres such as Switzerland. In this context, bankers *in Luxembourg* hope to receive a boost from lhe recent Swiss decision to freeze the assets of ousted Philippine President Ferdinand Marcos, as well as ex-Presideot Jean Duvalier of Haiti.

One reason for tbe surge was lhe favourable outlook in the eurobond market, which created meoy lucrative trading oppor*tunities* and *boosled* the value of bonds held in banks' own portfolios.

Another, however, was the earnings advantage accruing to banks from the favourable accounting treatment allowed on *loan loss provisions*.

Over the past few years the authorities have allowed banks to build up *substantially* provisions whicb effectively provide an interest-free source of funds on their balance abeet. While operating earnings bave risen, declared profits have in many cases fallen as a result, and some banks have adopted e *policy* of not declaring any profit et all.

Tbe sigos are that this process may now be drawing to a close. Deutscbe Bank's Luxembourg subsidiary, whicb initiated the *zero-profit accounting* concept five years ago, has begun declaring profits again. It is now thought to bave made all the provisions it reasooably can against its loan portfolio, *and gradually other banks are* exepcied to find themselves in the same position. That could *mean pressure* on earnings over the next few years, especially if profits in the bond market *become* harder to *make as* the yield curve fiattens and rates even begin to rise again eventually.

By then, however, bankers hope that their fee income will have risen further. Meanwbile, they are still looking to the Government to provide support during the diversification process.

One hopeful sign is that the *Governmeot* bas announced plans for a cut in corporation tax, currently 40 per cent, to offset Luxembourg's loss of competitiveness *vis-a-vis* London when the rate there was cut to 35 per cent.

Bank secrecy legislation is now *well eslablished* in Luxembourg, but its image as a centre is still rather different from that of Switzerland.

Firsl, it hss dellberately chosen to be a low-key centre. There is less of the glamour and mystique surrounding the nondescript banking offices of the Boulevard Royal than is to be found on Zuricb'a Bahnhofatrasse; and government officials are emphatic in their desire not to be seen as a haven for suspect or illegal funds. Instead, their efforts are intended to *promote the Grand Duchy as a* centre for managing the mooey of wealtby, but not super-rich *elients. Fees are lower than in* Switzerland and bankors are less inclined to look askance at smaller emounts.

The hope is that this will *boost* not only fee income, but also the volume of securities trading in Luxembourg, *itself a potential source of incremen*tal earnings. Both aspects of this change have already led to an increase *in employment* in the banking sector, another factor wbich the authoritiea believe will make *the industry* more secure. It is easy, they argue, to move and take customers away to *another* centre, but a bank with a large payroll *in* the Grand Duchy would find it barder to desert *its* employees.

Fortunately for the banks, profits in the Grand Duchy have been running at record levels. *Last year's operating earnings* are nrovisionally estimated by the Monetary Institute at some LFr 80bn compared with *only* LuxFr 67.5bn in 1984.

Peter Montagnon

LUXEMBOURG	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−1.4	0.8	2.8	4.5	2.5
Inflation (%)	8.1	9.2	8.7	6.8	4.1
Current Account Balance (US$m)	na	na	na	na	na
Exchange Rate: Francs vs US$	37.13	45.69	51.13	57.78	59.38
Trade Weighted Index (1971=100)	113.25	102.70	100.99	100.23	102.09
Real Trade Weigh. Ind. (1971=100)	88.53	80.22	78.86	78.66	77.27

Belgium

Sluggish demand for credit

TWICE IN a week the National Bank of Belgium lowered its discount rate, triggering falls in the interest rates of the private sector banks and the state credit institutions.

That was just after the April currency realignment in the European Monetary System, which had seen the Belgian franc take a small devaluation against the Deutschemark and the Dutch guilder, and a revaluation against the French franc.

Spring came then, with the possibility of a stronger demand for credit from the banks, if the economy could respond to the stimulus. It was a break in the clouds. Although bank profits—taking the big three of the country as a yardstick—have continued to increase, they have been held back by the persistently sluggish demand for credit from the private sector.

To some extent, the slack has been taken up by the evidently unquenchable demand of the Belgian state for funds. Traditionally the Belgian banks have a close association with the state and are obliged to subscribe heavily to its fund-raising.

The latest figures available are from Generale Bank, the largest of the private-sector banks. In its 1985 financial year, the bank's total commitment to the private sector and international public organisations actually declined slightly, but its lending to the public sector went up BFr 80bn to reach a total of BFr 570.9bn. In 1984, the increase had been BFr 34bn.

Certainly, the state demand has helped to mop up the high level of liquidity on the domestic market as deposits have continued to increase. And certainly, the Belgian state has provided a safe haven for funds from banks which generally have been very cautious to limit their exposure in the danger areas like Latin America.

But for more dramatic forms of revenue increase, the activi*ties of the banks in the* securities business are significant. The Belgian stock market has continued to *rise, although* the level of capital-raising in recent months has dropped compared with 1983.

The effect of the sunny stock *market climate was evident in* the results of Banque Bruxelles Lambert, the second largest of the banks. *In the figures* is a title called "sundry income," and in the year to last September it rose 40 per cent to BFr 7.7bn. The large part of that rise came from stock market-related business. Sundry income represented just less than a quarter of the bank's gross revenue.

The banks themselves have been taking advantage of the favourable market conditions, both in Belgium and abroad. Generale Bank last March accompanied an announcement of higher dividends and profits with a plan to return to the domestic market with a rights issue to raise np to BFr 2.12bn.

That issue followed closely on the beels of an international placement raising BFr 2.55bn by Banqne Bruxelles Lambert with institution in France, Germany, Switzerland and the UK. The banks have been assiduously strengthening their capital bases.

This international issue *pointed* to the growing tendency of the major banks to seek expansion abroad. The aim of the BBL issne was not only to tap new markets for capital, but to sharpen the profile of the bank in international markets.

To some extent this bas been *happening anyway*. The Belgian banks have been motive forces behind the development of the *Ecu in international* transactions, even if tbat development has been concentrated hitherto on bond issues. Now its use is spreading for corporate commercial transactions and as a money tool.

Evidence of this last came *with the introduction* on the US markets of a dollar-Ecu futures contract. But the main point abont that *from* the Belgian point of view was that Kredietbank, the third largest of the *banks*, was appolnled the official delivery bank.

This meant that all Ecu payments for maturing contracts would be bandled through Kredietbank, thus *substantially* enhancing its Ecu turnover—even at that stage in January running at more than *Ecus* 6bn a day.

Paul Cheeseright

BELGIUM	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−1.05	1.5	−0.1	1.5	1.8
Inflation (%)	7.6	8.7	7.7	6.3	4.9
Current Account Balance (US$m)	−4174	−2615	−431	193	500
Exchange Rate: Francs vs US$	37.13	45.69	51.13	57.78	59.38
Trade Weighted Index (1971=100)	113.25	102.70	100.99	100.23	102.09
Real Trade Weigh. Ind. (1971=100)	88.53	80.22	78.86	78.66	77.27

Spain

Looking for efficiency

A VINTAGE year for profits in 1985 has helped Spanish banks feel rather more comfortable about the prospects now that the country is in the EEC and the transition process towards open competition is relentlessly under way. They have recently fared better, on average, than the foreign banks whose arrival since the first liberalisation of the market in 1978 appeared so threatening to the domestic banking establishment.

EEC entry means that conditions for foreign banks will be progressively brought into line with those of their Spanish counterparts between now and 1993. Limits on their access to domestic peseta deposits are being dismantled step by step.

Foreign banks, except for the handful which were either already in Spain before 1978 or which have since taken on ailing Spanish banks as subsidiories, are restricted to three branches each, but the ceiling will be gradually lifted after the first four years of membership.

Most Spanish bankers are optimistic about membership, in terms of both their own position in the market and the long-term benefits for the Spanish economy. But additional competition and the need to adapt to changes in banking worldwide pose numerous questions about the future. Despite their current profits, banks need to become more efficient and more international. In the view of some, they need a shake-up.

Changes are already beginning in the two conservative institutions that vie for leadership among Spain's deposit-takers, Banesto and Banco Central, with the appointment of new managing directors. *At the former*, Mr Jose Marie Lopez de Letona, a one-time Bank of Spain Governor, takes over the main executive role, and at the latter, Mr Epifanio Ridruejo, a relative stripling at 52, has moved in as number two behind chairman Mr Alfonso Escamez.

The other member of the "big three" commercial banks, Banco Hispano Americano, had a new chairman, Mr Claudio Boada, put in by the Government just over a year ago when it ran into problems over its industrial banking interests.

The new appointments have evidently met with approval at the Bank of Spain. While not immediately worried about anything as drastic as the series *of bank failures that plagued* Spain between 1978 and 1983, the central banking authorities have shown a keen interest in the management of the big groups.

The big three typify the cumbersome *structure of* Spanish banks which built up huge branch networks in the 1970s in the fight for customers' funds. According to the Spanish Private Banking Association (AEB), Spain had 16,606 bank branches at the end of 1985, *compared with* 14,900 in the UK and under 10,000 in France. This works out at a branch for every 2,332 Spaniards, or if savings banks are included one for every 1,200.

New branch openings, which were going on at about 1,000 a year, have slowed since 1983. Last year, the net increase was only 173, with 380 new branches opening and 207 being closed. The number of commercial bank employees has been trimmed from 180,000 six years ago to about 164,000. But the volume of credits per employee is barely half the average in the pre-enlargement EEC, and per branch only about a quarter.

Banking margins are meanwhile above the average in the rest of Europe, even though they are becoming narrower. The share of income coming from services is lower than the average and costs are higher.

Where opinions are divided is *on* whether the necessary streamlining of Spanish banking can be done with the present structure or whether Spain needs fewer, bigger banks. Mr Jose Angel Sanchez Asiain, chairman of the number four bank, Banco de Bilbao, is an open advocate of mergers, but some of his rivals are strongly opposed.

In any case, the AEB argues that even if the big three were to be merged into one, they would only attain a ranking of about number 30 in the world listings. It concludes that size "does not seem to be the decisive factor when it comes to obtaining penetration and efficiency."

The combined pre-tax profits of Spanish banks climbed by *37.5 per cent last year—partly* because of a recovery in the position of problem banks which the larger institutions have taken under their wing. The fact that loss-making banks cut their losses by 47 per cent made a large contribution to the overall figure.

Profitable banks still increased their earnings by 26 per cent, and savings banks, which have been becoming increasingly like normal banks and have built up their share of total deposits to over a third, *raised theirs by 20 per cent.* This compares with a 12 per cent combined increase among the eight foreign banks with branches already set up in Spain.

The financial situation is not, however, wholly comforting for the banks, since the results show a further narrowing of their margins in a period of lower interest rates. Since 1984, slack credit demand from the corporate sector, which has improved its self-financing capacity, and the Government's move to finance the budget deficit by direct access to savers, have combined to reduce banks' income from lending, and they have been unable to match this by cuts in the cost of their liabilities. At the same time, they have found difficulties in increasing their income from services.

These negative trends were offset by lower costs, by profits made out of the past two years' boom on the stock markets, and above all—the main reason the year turned out better than expected—by a reduction in their provisions for domestic loan risks.

Banks are meanwhile concerned about a possible resurgence in interest rates and continue to complain of the distortion caused by Spain's system of compulsory quotas which channels a large part of banks' resources into state-directed uses.

Although the authorities *have reformed this system* with a view to cutting the burden substantially by 1990, banks continue to be worried about the size of the state's financing needs, which last year rose beyond the Government's targets.

David White

SPAIN

	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	0.3	1.0	2.8	2.3	2.1
Inflation (%)	14.6	14.4	12.2	11.8	0.8
Current Account Balance (US$m)	−4,989	−4,245	−2,746	+2,311	+2,000
Exchange Rate: Pesetas vs US$	92.32	109.86	143.43	160.76	170.04
Trade Weighted Index (1971=100)	76.89	76.34	88.51	69.32	72.08
Real Trade Weigh. Ind. (1971=100)	102.18	102.59	94.13	96.33	98.21

Portugal

Europe speeds up the system

PORTUGAL HAS clambered aboard the EEC train. The long *voyage of adjustment has begun* in earnest, and the first stirrings of new European status are penetrating the financial system.

New instruments are becoming available to banks and investors at surprising speed for a country that went almost nowhere financially for years.

Since August 1985, regular auctions of new short-term negotiable Treasury bills have been eagerly seized upon by nationalised commercial and new foreign, or privately-owned, Portuguese commercial banks as a first step (of particular importance to nationalised banks) towards an open money market.

Swamped by time deposits from large institutional and small private savers, and barred from lending freely by tight Government-imposed credit ceilings, the national banks were losing heavily. The new Treasury bills, whose rates are attractive to customers, have begun to shift funds from time deposits into such papers.

Further shifts occurred with the highly-popular series of bond issues by public or private companies, which began in 1981 and have multiplied ever since.

Bond placements have become a lucrative business for banks and the investment or financial service companies that were authorised in Portugal after 1981, mainly to promote medium and long-term project investment, but also to offer a wide and flexible range of services, including cash management.

When leasing companies joined the Portuguese scene in 1982, customers' choice of financing instruments diversified further; and the companies, in which both Portuguese and foreign banks often hold major blocks of shares, have reported high returns on capital, despite the economic crisis that plagued Portugal in 1983-85.

Very selective in their choice of clients, and pitiless about reclaiming equipment if clients do not fulfil their monthly obligations, the leasing companies have had an educational effect on a country where, often, non-payment of loans or bills has been an established practice for generations.

Now, a new set of instruments *has been introduced*, further diversifying the market. The first unit trust (mutual fund) has been authorised, and a second is expected soon. The first, called succinctly "Invest," is to be operated by two nationalised banks, Banco Nacional Ultramarino and Banco Fonsecas e Buyrnay; six insurance companies and CISF, the financial service company in which Lloyds Bank International and Mitsubishi Bank hold a small share.

The second unit trust, FIPOR, will be operated by two nationalised banks, Banco Pinto e Sottomayor, Banco Portugues do Atlantico; two new privately-owned banks, the Portuguese Investment Bank (BPI) and Banco Comercial Portugues (BCP), both Oporto-based institutions; Banco Comercial de Macau and Credit Franco-Portugais, local offshoot of Credit Lyonnais. Unit trusts will be able to place 10 per cent of their portfolios on foreign markets.

As a means of strengthening the capital of nationalised banks, the Government is authorising the issue of "participation bonds" — a device invented by the French that is part-fixed income bond, part equity, entitling the holder to a dividend and vote at an annual general meeting.

Portugal's banks and insurance companies are badly under-capitalised compared with EEC institutions, and are striving to raise their capital levels rapidly.

New vitality in the stock and bond markets has rubbed off on banks through which customers acquire stocks and bonds. New share issues are finally coming on to a market that, for almost a decade, had only 24 listed shares. Tax incentives for investors and companies going public, and attempts to reduce the red tape involved in placing shares on the market, have recently spurred interest in the Lisbon and Oporto stock exchanges.

Creation of an interbank spot currency market, so as to conform with the Treaty of Rome, will be followed by interbank futures and gradually-liberalised currency markets after years of stern Bank of Portugal management.

Diana Smith

Italy

Return of the corset

THE ENTIRE world of Italian capitalism—and not just the financial system—is now undergoing a period of transformation marked by a desire to modernise, introduce greater competition and create a less oligarchic structure.

Banking in Italy, even though predominantly state-controlled, is part and parcel of the change and this means that the past year has seen a range of significant developments in corporate finance, retail banking and financial services related to banking.

At the same time Italy's monetary authorities have been working for the past two years to stimulate greater competition among banks, in part by means of a series of deregulation measures. The most important of these was the abolition more than two years ago of Italy's equivalent of the corset—tight constraints on bank lending.

Unfortunately, the corset, known in Italy as the "massimale," was reintroduced in mid-January this year as part of a packet of lira defence measures. Indications from the central bank in Rome suggest that it will be lifted in the near future.

In macroeconomic terms the outlook is bright: falling oil prices and the weakness of the US dollar against the lira are providing a windfall which to stimulate Italian industry. Corporate profitability should rise by an impressive average of 35 per cent this year. Inflation, which at the end of last year was about 8 per cent, is now going down and could well decline to 5 per cent or even less by the year-end.

The discount rate was cut by a full point to 14 per cent a few weeks ago and the prime rate, no longer set on a uniform basis by all banks, was recently cut from 75 basis points to 1 per cent, meaning that the rate currently varies from 15 to 16.25 per cent.

Inflation and interest rates are still much higher than in other European countries. But this is a function of Italy's enormous annual public sector deficit. Forecast this year to be around L113,000bn ($70bn). The Treasury finances the deficit by issuing reams of bond issues, which are still tax-free despite some discussion of the possibility of introducing a tax.

Large industrial companies, in any event, are finding it more attractive to raise funds on the booming Milan Bourse, and loan demand in corporate Italy is relatively weak.

Italy's largest banks recorded profits growth last year though nothing like the average doubling in net income achieved in 1984. Bank profit figures are, however, only a limited tool of analysis in Italy. Nonetheless, lending margins remain in the region of 4 to 6 per cent and many banks have announced big increases in their capital base.

These capital increases are achieved in part through the sale of equity on the Milan Bourse and to foreign investors. Although several banks are being partly privatised, majority control tends to rest with the state.

The significant growth of the Milan Bourse (where total market capitalisation has jumped from $28bn in January last year to $100bn at present) is being accompanied by a growing interest in merchant banking.

Even as the Italians struggle to nurture merchant banking and more advanced corporate finance methods a number of New York and London investment banks and merchant banks are piling into the Italian market, seizing upon new opportunities for funding Italian companies both at home and in international acquisitions of which there have been several in recent months.

Morgan Grenfell, S. G. Warburg, Kleinwort Benson, First Boston International, Credit Suisse First Boston, Morgan Stanley, Shearson Lehman, Goldman Sachs and others are working more closely than ever with the big names in Italian industry.

The same cannot be said of the 35 foreign commercial banks based in Italy. Foreign banks are finding it costly to fund loans on the interbank market and have great difficulty competing with Italian banks in the domestic loan market.

While few banks are doing well, Barclays Bank's Italian operation is without doubt the most troubled. Last year it faced a L32bn loss—L7bn of trading losses and L45bn of bad debts which are being treated as losses.

Barclays is receiving a L53bn injection from head office in London and emphasises that it is "repositioning" its Italian business.

More promising have been certain developments in Italian banking over the past year. Retail banking, traditionally affected by poor customer service, is beginning to show signs of improvement while the nationwide Bancomat cash dispenser network is a real success and now among the most advanced in Europe.

But even as the economy continues to boom, certain typically Italian episodes show that there is still a potentially sinister underside to the country's financial system, or perhaps simply that this is still Italy, land of intrigue.

The deputy director general of the Banco di Napoli, the country's seventh largest bank and the most important institution in the south, was recently arrested and accused of embezzling L50bn of funds which went as loans to Naples companies suspected of being controlled by the Camorra, the local version of the Mafia.

Then there was the death in prison last month of Michele Sindona, the Sicilian banker who was once a key Vatican adviser and had been sentenced to separate prison terms for the collapse of his Italian banking empire and the Franklin National Bank in New York.

Sindona dropped dead of cyanide poisoning in his maximum security jail cell only 48 hours after being sentenced to life imprisonment in his third trial, this one for ordering the murder of a lawyer who was investigating his banking empire.

It is not known if Sindona's death, which brought back memories of the death of Banco Ambrosiano's Roberto Calvi in London in 1982, was murder or suicide. It is referred to in Italy as "suicide Italian-style."

Alan Friedman

ITALY

	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	0.2	−0.0	−0.4	2.6	2.2
Inflation (%)	17.8	16.5	14.7	10.8	8.6
Current Account Balance (US$m)	−8,604	−5,094	856	−2,871	−5,600
Exchange Rate: Lire vs US$	1,136.8	1,352.5	1,518.8	1,757.0	1,909.4
Trade Weighted Index (1971=100)	48.42	45.57	45.74	44.69	43.34
Real Trade Weigh. Ind. (1971=100)	94.73	94.57	96.76	96.10	95.65

PORTUGAL

	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	5.1	3.8	3.0	2.5	2.0
Inflation (%)	20.0	22.7	25.1	28.9	19.6
Current Account Balance (US$m)	−2,606	−3,250	−1,004	−514	−200
Exchange Rate: Escudos vs US$	61.55	79.47	110.78	146.39	170.39
Trade Weighted Index (1971=100)	45.73	40.00	32.08	26.57	24.41
Real Trade Weigh. Ind. (1971=100)	98.24	101.37	98.64	98.01	92.31

Switzerland

Big Three earnings up 20 per cent

SWITZERLAND'S big banks have continued resolutely over the past 12 months to stake their claim to a share of the global financial market at the same time as they put on record in 1985 yet another excellent earnings performance.

Abroad, the big Swiss banks have joined others in hammering at the door of the Japanese trust and securities markets. They have moved confidently into Frankfurt to take advantage of the unfolding West German market and consolidated their positions in London in time for the Big Bang.

At home they have responded to the foreign challenge by adjusting their fees for bond issues and stock exchange business. They have kept up a dogged campaign to persuade the Federal Council to ease the fiscal shackles, which they argue put them at a disadvantage.

A recent vote in the upper house of the Federal parliament indicated that political opinion could be swinging in their favour although the concessions hinted at in a government report did not include the reduction in stamp duty on the foreign-to-foreign securities business that the banks want most badly.

Relations between the banks and the authorities have most recently been soured by the government's order to freeze the assets of Mr Ferdinand Marcos, the deposed Philippines president, his family and associates.

The banks saw the government's action as arbitrary and ill-advised and are unhappy that Swiss banking secrecy has once again come into the spotlight of international attention.

Their 1985 profit performance and Swiss capital market statistics for the year offer little reason for discontent. The big three banks—Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse—all reported increases of close to 20 per cent in net earnings. If the Swiss Volksbank and Bank Leu results are added, the combined net profit growth for the big five exceeded 20 per cent.

All types of operations contributed to the earnings growth even though income from commissions continued to outpace interest income, confirming the trend towards heavier business off balance sheet that has emerged over the last few years.

So far at any rate, the banks appeared to be adjusting without trouble to the curb on private bank savings arising from the introduction of compulsory pension schemes. They are funding more from the inter-bank market and organising themselves to manage pension funds' portfolios.

The erratic exchange movements of the dollar over the past couple of years have distorted the Swiss banks' balance sheet scores which are in any case less relevant as the off-balance sheet business swells.

For the record the assets of the 71 banks which report monthly to the National Bank rose by 7.2 per cent to SFr 584.8bn ($298bn) last year compared with a 10 per cent growth in 1984. However, if the dollar exchange rate had remained stable, their assets growth would have been 12.7 per cent against 6 per cent in 1984.

Dividend increases to shareholders have been common and four of the big five banks have announced rights issues this year. The fifth, UBS, certainly has something up its sleeve for shareholders next year, when it will celebrate its 125th anniversary.

The banks' domestic credits climbed by 9.9 per cent to a total of SFr 259bn while their foreign lending grew by 1.1 per cent to SFr 64bn. However, the quirks of the dollar exchange rate affected this result: with a stable dollar the increase in foreign credits would have been 12.5 per cent, the highest growth rate since 1979.

The Swiss capital markets have been in an ebullient phase with only a slight slackening off in the stock markets since the turn of the year to shade the picture. New money raised in the Swiss capital market last year amounted to SFr 28bn, an improvement of more than 41 per cent over the already respectable performance of 1984.

New domestic issues at SFr 11.2bn were 18.8 per cent higher but Swiss franc foreign issues expanded by nearly 50 per cent to SFr 16.7bn during the year. The pace was maintained in the first three months of 1986 when new foreign issues totalled SFr 6.7bn against just under SFr 3.8bn in the first quarter of last year.

A big contributing element here has been the return in strength to the Swiss market of US corporations and the skill of the US banks based in Switzerland in arranging currency and interest swaps.

One effect was a decline last year to just over 60 per cent in the share of the new issues market going to the big banks' syndicate which had still enjoyed about 10 per cent three years earlier. It was partly in reaction to this development and partly to the growing competition from the deregulated D-Mark bond market that the syndicate trimmed its fees and made its rules for participating in new issues more flexible.

The sharper competition both at home and in the race for positions on the global market has caused the Swiss banks to revive the issue of reciprocity or equal treatment for them in other countries to that enjoyed by those countries' banks in Switzerland. The Banking Commission has been pressed to take a tougher line in granting licences.

Japan, where the Swiss banks have been seeking licences for both trust banking and securities trading, has been the chief target. Swiss bankers point out that by 1984 foreign banks accounted for over 14 per cent of total banking assets in their country while in Japan the ratio was still well under 5 per cent.

Subjecting foreign finance companies, securities firms and portfolio management companies operating in Switzerland to reciprocity requirements has also become an issue for the Swiss banks. The finance companies which do not seek deposits from the public are not subject to the Banking Act, but they participate in new bond issues and advance credits, which they finance through their parent companies or on the Euromarket.

The Swiss banks have been supported by the National Bank which has proposed that five conditions be attached to permits for finance companies: minimum capital, organisational rules, conduct guarantees, reciprocity and regular auditing control.

It is still not clear whether these conditions will be imposed by decree or included in the partial revision of the Banking Act that the Federal finance ministry has been playing with since the more fundamental changes to the Act it had originally proposed were rejected in a national referendum in 1984.

William Dullforce

SWITZERLAND	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	1.5	−1.1	0.7	2.1	3.6
Inflation (%)	6.5	5.7	3.0	2.9	3.4
Current Account Balance (US$m)	1,493	3,934	1,197	4,019	3,900
Exchange Rate: Francs vs US$	1.96	2.03	2.10	2.35	2.46
Trade Weighted Index (1971=100)	191.44	208.88	221.78	221.82	223.84
Real Trade Weigh. Ind. (1971=100)	112.37	116.55	117.74	113.80	112.35

Austria

Regulating to raise profits

AFTER SEVERAL years of de-regulation marked by heady competition, Austria's financial institutions are bracing themselves for tougher times ahead and a return to a more regulated market.

In contrast to moves elsewhere, Austria's financial authorities have decided to re-introduce regulation as a means to improve profit margins and the capital base of Austrian banks. The objective of a new law to be introduced by the summer is to make the banks more efficient and more profit-conscious.

In effect, the new law will seek to curb the untrammelled competition that followed deregulation in the late 1970s. This ushered in a period of unparalleled expansion of branch networks, with rising costs and falling profit margins.

Austrian banks have some of the lowest profit margins in their field among OECD countries, and their capital-to-lending ratio has fallen to about half what it was 20 years ago. The new law will impose tight targets to improve the banks' capital bases. Within five years, all banks will be required to raise their capital ratios to 4 per cent of balance-sheet totals, and within the next five years to 4.5 per cent.

This will place a heavy demand for funds on the banks. The Creditanstalt Bankverein, Austria's largest bank, estimates that it will have to raise its capital and reserves by over Sch 10bn to about Sch 20bn by 1991 to meet the new requirements.

The Girozentrale Bank, the second largest bank, which acts as a clearing bank for the savings banks and as a commercial bank in its own right, estimates that it will have to raise about Sch 6bn, and the Oesterreichische Landerbank about Sch 5bn.

These estimates are preliminary, and depend on varied expectations about the rate of growth of the individual banks' balance sheets; but no one is hiding the fact that meeting the new targets will be hard.

A provisional Finance Ministry estimate suggests that the amount of capital to be raised by the whole of Austria's banking community will range between Sch 50bn and Sch 100bn, depending on the growth of business volumes. On the assumption of a 5 per cent growth rate, the amount to be raised would be in the region of Sch 85bn. Most banks expect to be raising some of the capital on the foreign markets.

After initial opposition by the banks to the original draft of the law, some amendments were made to facilitate the task of raising capital with the establishment of new financial instruments. Most banks now accept the Finance Ministry's arguments for wanting to introduce the law, although some misgivings remain about some of its provisions. Some banks would prefer a longer period to raise their capital.

The Finance Ministry's move follows an earlier attempt at self-regulation by the banks last year. Warning signs and critical remarks by Dr Franz Vranitzki, the Finance Minister, had persuaded the banks to try to put their own house in order, in the hope that regulation could be avoided.

Whether the Finance Ministry's targets will be fully met is open to question, and some bankers remain sceptical; but most expect to meet the challenge. The move was also motivated by concern over the Austrian banks' international standing in the long term, should the present situation continue. It is thought here that the new law can only help the banks to maintain their good international standing.

One side effect of the new law will be to encourage banks to focus more attention and effort on their traditional customer base. In the past, Austrian banks have been sharply differentiated by sectors; but after deregulation in the late 1970s the traditional difference between the various banking groups—commercial banks, savings banks and other specialised institutions, dealing with agriculture and small business—disappeared, with a few rare exceptions. All banks sought to transform themselves into universal banks on the West German and Swiss models.

Each banking group remained closely attached to its traditional customer base, but some sectors lost ground as other banks moved in to raise their market share.

The savings banks, for example, saw their market share in savings deposits fall, to the benefit of the large joint stock and other banks. The rush into new areas of business, especially into foreign business, after deregulation only partially compensated for the decline in market share in the banks' traditional business.

No-one in Vienna expects, or wishes, a return to the rigid sectoralisation of the past. To some extent, the de-regulation of the 1970s effectively sanctioned a process that had been taking place previously, and that process is now irreversible.

By focusing on profitability and efficiency, the new law will encourage the banks to concentrate more in areas where they are strong and where they have greater expertise.

It will also encourage some restructuring, including mergers, within the various banking groups. That is all good news to Dr Vranitzki, who believes, as most Austrian bankers also readily admit in private, that Austria is already overbanked anyway.

Patrick Blum

AUSTRIA	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−0.1	1.2	2.1	2.0	3.0
Inflation (%)	6.8	5.4	3.3	5.7	3.2
Current Account Balance (US$m)	−1,464	641	177	−826	Nil
Exchange Rate: Schillings vs US$	15.93	17.06	17.96	20.01	20.69
Trade Weighted Index (1971=100)	132.89	138.53	144.75	146.98	151.65
Real Trade Weigh. Ind. (1971=100)	100.66	100.45	100.28	98.78	99.80

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Norway

Competition curbs interest rates

A MARKED narrowing of interest margins, compared with a year earlier, is the most notable feature of the accounts for 1985, tabled during the past few weeks by Norway's merchant banks.

The trend is a direct result of Government measures affecting finance markets — mainly last year's two increases in the primary reserve requirement, which affect most Norwegian banks (north Norwegian banks are exempted).

Standing at 10 per cent on January 1, the requirement was raised to 11 per cent in February and to 15 per cent last summer. The effect of this was reinforced by the decision, earlier in the year, to cut the Treasury bill rate—already well below the market rate—to about 8 per cent, from about 10 per cent. This hit the banks, because reserves held under the requirement have to be *invested in Treasury bills*.

In July, the Treasury bill rate was adjusted upwards again—but only slightly, to around 8.5 per cent. More significant relief came in September, when the Government abolished the official guidelines regulating the interest banks, and insurance companies are allowed to charge on advances to customers. Until then, the Government had required these institutions to keep their average rates at not more than 12.6 per cent for medium term and 12 per cent for long term loans.

Competition prevented the banks from taking much immediate advantage of this newly-won freedom, however. The increases made in the final quarter of 1985 mainly affected consumer credit rates—charges to the corporate sector, where competition for business is keen, were hardly altered.

A recent survey by the Norwegian Bankers' Association shows how its members' average interest margins (net interest income, as a proportion of average total assets) were hit. They shrank to only 3.16 per cent, last year, from 3.58 per cent in 1984, and 3.90 per cent in 1983. The seven foreign banks which last year established subsidiaries in Norway are not included in the survey, since 1985 was their first operating year in the country.

When interest margins are *squeezed*, the *smaller banks* suffer most. Over the past few years, Norway's "Big Three"—Den norske Creditbank, Christiana Bank, and Bergen Bank—have increased their activity in other sectors, particularly trading in foreign currency and securities, and are now less dependent than they were on interest margins. Where these previously accounted for around 70 per cent of their earnings, the proportion dropped to 60 per cent last year and is still falling. The smaller banks do not have the same scope for expansion in other areas.

This difference is reflected in the Association's figures for operating profits (before bad debt allocations) as a proportion of *average* total assets. In 1985 the Big Three achieved an average of 1.73 per cent, compared with 1.72 per cent a year earlier. The average for the other members of the Association (foreign banks again excluded) dropped to only 1.41 per cent, from 1.56 per cent in 1984.

The government kept minimum reserve requirements high in 1985, as part of its effort to curb a steep rise in bank lending during the year. The move to free interest rates had the same aim. Lending continued to expand, however, at well above *Government guidelines*, and in mid-January this year Oslo announced a tough new package of money market measures.

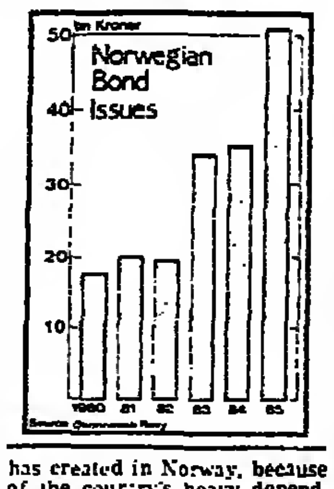
It included a further increase in the primary reserve requirement—to 17 per cent; the introduction of a new supplementary reserve requirement for banks; the extension to life insurance companies of the primary reserve requirement; an increase to 14 per cent, from 11 per cent, of the primary reserve requirement on finance companies' factoring and leasing activities; and the reintroduction of direct *regulation* of bank *guarantees* covering loans raised in the unregulated, or "grey" credit market.

This time, the banks moved more quickly to pass on to their customers the burden of the higher primary reserve requirement. Since the new year, interest charges for all types of loans have gone up by between 1 and 1½ percentage points.

Rates vary from bank to bank, and tax breaks ease the burden of the increases—at least for the better off (all interest expenses are tax deductible in Norway, and this is one of the main reasons why interest rates are so high).

The measures do, however, appear to be biting. Doubtless they have been reinforced by the general climate of uncertainty which the oil price slide has created in Norway, because of the country's heavy dependence on the off-shore sector. Bank lending is still rising, but at a significantly slower pace than last year.

Fay Gjester



NORWAY	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	0.9	0.3	3.9	3.8	2.8
Inflation (%)	13.7	11.4	8.4	8.3	5.7
Current Account Balance (US$m)	2,177	662	2,036	3,228	2,500
Exchange Rate Kroner vs US$	5.74	6.45	7.30	8.18	8.60
Trade Weighted Index (1971=100)	117.65	119.13	117.77	117.19	116.17
Real Trade Weigh. Ind. (1971=100)	105.50	106.00	104.07	103.53	103.28

FINLAND	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	1.9	2.9	2.9	3.0	2.7
Inflation (%)	12.0	9.3	8.4	7.1	5.5
Current Account Balance (US$m)	−373	−753	−936	5	nil
Exchange Rate: Markkaa vs US$	4.32	4.62	5.57	6.01	6.20
Trade Weighted Index (1971=100)	93.73	95.83	92.54	95.35	97.02
Real Trade Weigh. Ind. (1971=100)	117.95	113.29	114.51	116.32	118.58

SWEDEN	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−0.2	−0.8	2.4	3.0	2.4
Inflation (%)	12.1	8.8	8.9	8.0	7.4
Current Account Balance (US$m)	2,847	−3,314	−945	373	−700
Exchange Rate: Kroner vs US$	5.06	6.28	7.67	8.27	8.60
Trade Weighted Index (1971=100)	93.85	84.83	76.62	79.31	80.02
Real Trade Weigh. Ind. (1971=100)	101.69	96.07	91.82	96.03	97.83

Finland

Slow shift of emphasis

A FRESH BREEZE of deregulation has swept over Finland's financial markets during the past few years and changes, albeit slow, are making themselves felt.

Much of this focuses on the Bank of Finland; but other factors, including the rapid international expansion of the country's economy, low inflation and increasing competition among Finnish banks, also play a role.

During this decade the central bank has abolished many of the instruments that control the money supply. Instead it has adopted a more active policy in regulating interest rates.

The shift of emphasis, which the bank itself calls "the new monetary policy," includes a dual interest rate structure in which the base rate (formerly discount rate) is supplemented by the call money rate. The latter, which controls the "grey money market," or the excess liquidity of Finnish companies, reached as high as 16 per cent in 1983 but has now come down gradually to 11 per cent. The base rate is now 8 per cent, down from 9 per cent at the end of 1985.

At the same time the central bank has eased the foreign exchange reins by allowing any transfer of payments in connection with foreign trade. Individuals have now more leeway in investing abroad. But the central bank still controls long-term borrowing from abroad and foreign investments by Finnish companies.

With 12-month inflation close to a mere 1 per cent, Finnish banks are facing harder times in selling money. Positive real interest rates are a new feature in a country where nominal interest rates have always been artificially low and inflation has more than offset the cost of borrowing.

This has increased competition among the banks, too, although the central features, the interest rate cartel and tax free deposits, still sit tightly in the system. The two are firmly linked together and a recently-passed law stipulates that the present system stays in effect at the least for the next three years.

The commercial banks would like to free interest rates to increase competition, but savings banks and co-operative banking groups, who fear that their rural banks would be crushed by branches of the big commercial banks, oppose it.

The banks mainly compete in service charges, and foreign operations. Corporate customers, particularly ones with foreign connections, have become a prize catch for all banks, not just the large commercial ones who have dominated the scene. Savings and co-operative banks have come forward strongly in trying to attract small and medium sized firms. Meanwhile, the "house bank" tradition has given way to shopping around for credit.

Nevertheless, the Finnish economy still revolves round a relatively few large banking institutions with a clearly-defined sphere of influence. In recent months this has been visible in the reorganisation of the Finnish forest industry, where Union Bank of Finland has been active and successful.

Its main rival, Kansallis-Osake-Pankki, has also been involved in the restructuring. Most analysts expect this trend to gain speed in the next few years.

Some banks, most notably the savings bank group, Skopbank have taken a very visible role on the Helsinki Stock Exchange too. Skopbank has tried to raid a number of Finnish companies and mostly it has ended with a hefty profit after cashing in its holdings.

All this has made politicians and civil servants raise a finger of warning for the banks' alleged excessive use of power. High-ranking politicians have demanded that parliamentarily appointed members should be named to the banks' boards and that the limit to their shareholdings in Finnish companies (currently 20 per cent of the equity) should be limited drastically.

None of *this* is *expected* to happen in the next year or so but competition among banks will undoubtedly increase.

Olli Virtanen

Sweden

Two steps to deregulation

SWEDISH BANKS and other financial institutions are working in a rapidly changing environment, and are facing new competitive challenges as the authorities force the pace of *liberalisation* and deregulation.

In two steps during the last 12 months, the banks have been freed from regulations, both on the volume of lending and on the interest rates they can charge. At the same time, the Riksbank, the Swedish central bank, has moved decisively to the use of open-market operations for the conduct of monetary policy, having encouraged the rapid growth of a well-functioning money market during the first half of the 1980s.

Sweden's Social Democratic government has also finally abandoned its opposition to the establishment of foreign banks.

The list of foreign banks is led by five institutions from France: Banque Nationale de paris, *Banque Paribas*, *Banque* Indosuez (in a joint venture with Postipankki of Finland), Credit Lyonnais and Societe Generale.

The other foreign entrants to the Swedish banking market include Citibank and Manufacturers Hanover of the US, the Dutch Algemene Bank Nederland, Kansallis-Osake-Pankki and Okobank of Finland, and Christiana Bank and den Norske Credietbank of Norway.

The one area of regulation where the authorities were expected *to retain* their traditional caution was foreign exchange controls, where a panoply of regulations has been in force since the Second World War.

During April, however, the central bank, led by its governor Mr Bengt Dennis, has come out in favour of gradual reforms in this area too—to the general surprise of the financial markets—and the first concrete steps should be announced before the summer.

The Riksbank has recommended to the Government that deregulation should take place in stages, and that a start should be made this year. The central bank says that the first priority should be to abolish the present requirement that forces Swedish corporations to finance direct investments abroad through foreign currency loans over at least five years.

In later steps, the restrictions on Swedish residents purchasing foreign shares and foreign real estate should also be removed.

The authorities are still shying away from more sweeping reforms, however, and are unwilling to contemplate any lifting of the ban on inward and outward investments in bonds and short-term securities—at least or the moment. The existing ban covers cross-border bank deposits and trading of bonds, short-term securities by Swedes in foreign countries, and purchases of Swedish Kronor-denominated securities by *foreigners*.

The Riksbank maintains *that* it is, above all, such short-term placements in bonds, money market securities and bank deposits that "traditionally serve as channels for strong and destabilising capital flows," which it sees as a threat to the autonomy of monetary policy-making.

The *non-socialist* opposition parties, which are in a minority on the Riksbank board, favour a faster pace of reform and a total removal of foreign exchange controls, but the Social Democrats accept the case only for gradual long-term reform.

The Riksbank estimates that a complete *lifting* of the control on direct investments abroad—the first reform measure recommended — would lead to an outflow of SKr 3.6bn in a full year and it has, therefore, suggested a staged removal.

The liberalisation of foreign exchange controls has been made possible by the significant improvement in the Swedish balance of payments and by the substantial reduction of the state budget achieved in the last four years.

Initially, some of the moves towards liberalisation in Sweden came more from the force of circumstances than from positive choice, with the emergence of large financial im*balances in the shape* of persistent current account and budget deficits compelling a degree of deregulation on the financial system.

Mr Kiell-Olof Feldt, the Swedish Finance Minister, insists, however, that the authorities have been ready to make a virtue of necessity. "We have seen these pressures as an opportunity to increase efficiency in the allocation of financial resources, and thus reinforce other economic measures working in the same direction," he says.

Swedish financial markets have undergone a revolution during the 1980s, and one of the major achievements has been the building up from scratch in 1980 of a well-functioning money market, which last year had a turnover of around SKr 1,500bn, according to Mr Bengt Dennis. In addition, Mr Dennis expects particularly strong growth this year in the bond market which, in 1985, had a turnover of some SKr 800bn.

For the banks, the most significant part of the series of *liberalisation* measures introduced by the Riksbank was the lifting in November of volume controls on bank lending. The banks have had to make a sort of gentleman's agreement with the Riksbank not to resort to too aggressive marketing methods—which might undermine the central bank's continued restrictive monetary stance—but in the long run the reform has transformed their competitive position, chiefly at the expense of the finance companies.

After long years trying to run the credit market with a system of detailed controls, the Riksbank has been forced to admit that "the structure of the market is distorted by the prolonged use of lending regulations."

In its 1985 annual report, Svenska Handelsbanken describes the reforms as the "most significant measures of deregu*lation in the* banking sector since the Second World War."

In terms of earnings, the fortunes of Swedish banks have also improved radically during the economic recovery of the last three years and the sector has managed to break the long-term trend, established in the 1960s, of shrinking profitability and weakening balance sheets.

Kevin Done

Israel

Top bankers sunk with one brick

ISRAEL'S banking community is still reeling from the blows inflicted by the Beijsky Committee's report on the October 1983 bank-share debacle, published here on April 20.

In language stronger than anyone anticipated, the report has demanded the resignation of the heads of all four major commercial banks and that of the Bank of Israel, the central bank.

Indeed, Mr Giora Gazit, managing director of Bank Hapoalim, the country's second largest bank, tendered his resignation the next day at a press conference, called to announce improved end-of-year figures for 1985. Mr Gazit, as a late arrival into the share-regulation scheme, was less severely censured than most in the report. Mr Gazit has now been replaced by Amiran Sivan, 48, who has been on the board of Bank Hapoalim since 1980.

Mr Ernest Japhet resigned the chairmanship of Israel's major bank, the Leumi le Israel, on May 11, to be replaced by Mr Eli Horvitz of the Manufacturers' Association.

Israel Discount bank and its chairman, Mr Raphal Recanati, were the first to be sued by a disgruntled investor, in what it is feared may become a torrent of cases, charging the banks with fraud, breach of trust and false representation.

United Mizrahi bank's managing director, Mr Aheron Meir, voiced the feelings of many of those involved when he complained: "My sense of proportion cannot accept being disqualified for life for having carried out a policy which was publicly known and which was executed with the knowledge of the state's authorities." Mr Meir has tendered his resignation as managing director but remains on the board.

There have been meetings between the bankers and top Israeli politicians, giving rise to fears that the report's recommendations may be watered down.

With the sinking of all the country's top bankers, tied to the same brick, there are fears that the ripples across Israel's economic lake may become waveo on foreign shores. During the country's economic hard-times, Israel's bankers have been instrumental in securing credit lines and loans that might not have been forthcoming, had the faltering Israeli treasury been doing the asking.

Consequently, everyone has been stressing the fundamental stability of the country's banking system in the wake of the report. Mr Shimon Peres, the prime minister, made a statement pointing out that share-regulation was already a thing of the past, and that "the banking system in Israel is an experienced, strong system . . . capable of meeting its commitments."

Individual banks' spokesmen have also been at pains to indicate that the banks have been busily putting their own houses in order ever since the share-collapse occurred.

At this time of year, the banks are publishing their 1985 figures, showing increased profits, mostly arising from operations. The struggle with closures, staff-cuts and the loss of the lucrative stock-brokerage trade which characterised 1984, is mostly behind them.

Last year saw a calming of the frantic pace of the banking business, as the Government's economic plan stabilised inflation. This allowed the banks to rednce staff still further, and use their expandad electronic services more productively. Large scale investment in new technology, however, was avoided, with little advancement shown on the home-banking and Eftpos (Electronic Fund Transfer at the Point of Sale) fronts.

Prevailing high interest rates, also part of the Government's plan to restrict credit, has caused some big businesses to falter, and many smaller ones to collapse. This has been reflected in the banks' provisions for bad-debts in 1985 which, in tha case of Bank Leumi, nearly tripled, to us $117.1m. Much nf this was due to a government-induced bail-ont for Elscint, the flag-ship of the Israeli high-tech industries.

Banking sources say that tha worst of the recession is over and, if the Government restricts aid to ailing concerns that show signs of recovery, rather than insisting on attempts to resuscitate terminal cases, the need for large, doubtful—debt provisions will abate.

As in previous years, the international operations of tha Israeli banking system have contributed to the credit side of the balance sheets, although expansion in this area was curtailed.

Finally, a word about the First International Bank of Israel, which was the only commercial bank in Israel completely uninvolved in the share-regulation scandal. Although much smaller than the "big four," FIBI has consistently kept to the forefront of innovation in retail banking in Israel, often forcing its bigger competitors to jump on to a bandwagon of FIBI's making.

Partly owned by Israel Discount Bank, and formerly controlled by Danot Investment year, First International was taken over last month by a group led by Mr Jack Nasser, AUS businessman, for $21m.

With FIBI showing a net profit for 1985 of $18.3m and a healthy net return on capital of 14.3 per cent, many will say Mr Nasser has got himself a bargain. He has also, in managing director, Mr Zadik Bino, got himself the only banker in town who should still be in his job in a month's time.

Lynne Richardson

Prime Minister Shimon Peres . . . "The banking system in Israel is an experienced, strong system . . . capable of meeting its commitments."

ISRAEL	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	2.8	0.8	2.6	0.7	1.6
Inflation (%)	116.8	120.4	145.6	373.8	304.6
Current Account Balance (US$m)	−1,468	−2,187	−2,325	−1,544	n.a.
Exchange Rate: N. Shekels vs US$	0.011	0.024	0.056	0.293	1.179

Denmark

Anyone can be a stockbroker

REGULATORY CHANGES and cbanges in credit policy bave both, over the past decade, contributed to intensified competition in the Danish banking world.

There are elso signs of increasing competition betweet the financial sectors. But legislative restrictions, which ensure that banks, insurance companies and mortgage credit institutions cannot stray far from their own line of business, have prevented all-out war.

This year, bowever, will see one major cbange, wben the monopoly which stockbroking firms have of operating on the floor of the stock exchange is ended. From the autumn, it will be possible for anyone to establish a company for the purpose of stockbroking. Several banks and insurance companies have already announced link-ups with existing broking bouses in preparation for the reform.

The effects of increasing competition between the banks and savings banks (they operate under identical legislation and regulations) has shown up in the past year or two in wider disparities in earnings than one would bave expected.

Danske Bank bas surged ahead of its perrennial rival as the country's biggest bank, on all counts except the balance sbeet totel. Privatbanken, the third largest bank, put up a notably poor performance; while Andelsbanken, Jyske Bank and SDS (the largest of the savings banks) did well.

As bond and share prices rose substantially last year, and the unrealised gains (or losses) on the value of the securities portfolio is entered fully into the profit and loss eccount in the year in wbich it is made, all the banks made satisfactory profits. But some did much better than others.

As the portfolio gains, which were very large in 1983 as well, cannot go on for ever, the capacity to earn satisfactory operating profits may separate tbe sheep from the goets over the next year or two.

If 1985 results are e pointer, tbe banks that will do well are Danske Bank, and Andelsbanken—one of whose distinctions is that its chief general manager is e woman, Mrs Bodil Nyboe Andersen. She is often named ss a possible successor to the present governor of Denmark's Nationalbank (the central bank), Mr Erik Hoffmeyer, when he retires in a few years time.

Using as the yardstick, profits before extraordinary items, the portfolio adjnstment and taxes, as a return on equity, Danske Bank's yield was 18.1 per cent and Andelsbanken's 17.6 per cent last year. This compares with 12.4 per cent by SDS, 10.6 per cent by Copenhagen Handelsbank, 6.2 per cent by Privatbanken and a negative relurn of 14.2 per cent by Jyske Bank (wbich, bowever, made exceptionally large provisions for depreciation and bad losses).

Net profits as a return on equity were exceptionally high, ranging from Jyske Bank'a 51 per cent, Andelsbanken's 39 per cent and Danskye Bank's 35 per cent, to Privatbanken's 14 per cent (among the bigger banks).

This year, the banks are not expected to make such big returns. The main reason is that a new big rise in bond and sbare prices is not expected to provide such large unrealised gains, although there may be aome scope for further increases.

Under the present economic policy regime, with capital movements between Denmark and the rest of tha world almost completely liberalised, and the Government following a fixed exchange rate (within the EMS), Danish interest rates ere are tied in closely with loternational rates. So far they have tended to move with the dollar markets, but there may be aome scope for a narrowing of the gap between capital market yields in Denmork and Germany now that inflation has been squeezed out of the Danisb system.

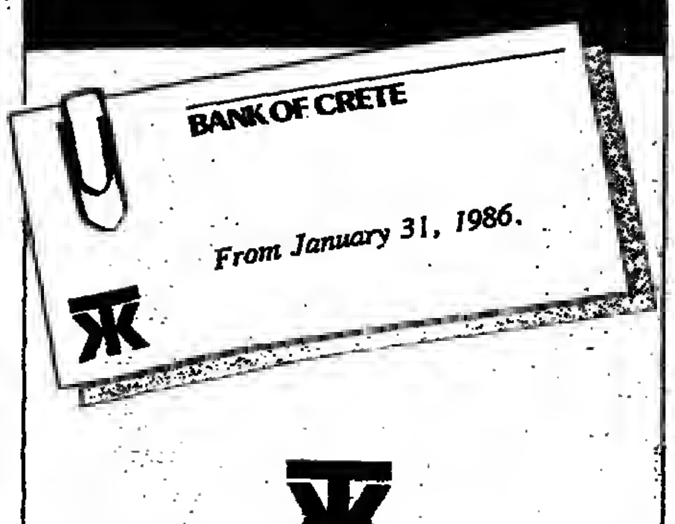
On tbe other hand, the country's current balance of payments, wbich at DKr 28bn was equal to 4.8 per cent of the GDP last year, remains worryingly lerge, and this factor may be instrumental in maintaining the gap between German and Danish capital merket yields.

Denmark is not only distinguished by the large number of independent banks and savinga banks (about 80 of the first and 150 of the second), but also by the numbers employed in these banks: abont 55,000, out of a population of 5.1m.

The ratio of bank staff to population is among the highest, if not the highest, in Europe. This is one factor which consistently leads observers of the Danisb banking scene to predict a wave of mergers, if not this year then next. But since the 1960s, when a number of largish regional banks and savings banks emerged, the structure has been felrly stable.

Hilary Barnes

DENMARK	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−0.9	2.9	2.1	3.9	2.7
Inflation (%)	11.7	10.1	6.9	6.3	4.7
Current Account Balance (US$m)	−1,875	−2,259	−1,176	−1,637	−2,200
Exchange Rate: Kroner vs US$	7.12	8.33	9.15	10.36	10.60
Trade Weighted Index (1971=100)	96.16	93.07	94.67	93.22	95.97
Real Trade Weigh. Ind. (1971=100)	108.05	106.75	107.46	106.34	108.83



Turkey

Stiff competition for deposits

TURKISH BANKERS bave two preoccupations in 1986. One is the continuing reform of the country's banking system. A year from now, they will be operating a standardised accouoting system and be subject to much closer scrutiny than in the past, not only from the central bank but also from the general public. In some cases there is a rusb to put bouses in order.

The second major coocern is the country's foreign exchange situation. Turkey has been trying to combine two seemingly conflicting goals in recent years—traversing the "bump years" of its debt repaymeots schedule, while liberalisiog foreign currency transactions.

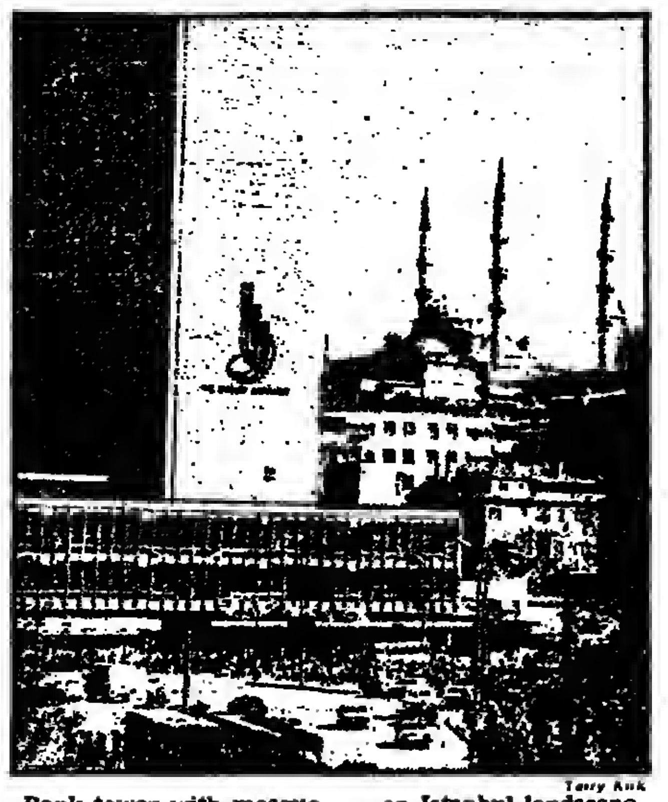
Foreign currency dealing has been the most active field of operation for many banks since the end of 1984. Turkisb citizens have poured more than $3,000m into accounts with the banks, and there bas been stiff competition between the larger banks and the smaller ones for deposits. One small bank, the Imar Bankasi, has stepped well out of line to offer dollar depositors interest of 12.5 per cent on their accounts. Major banks have generally preferred to offer rates closer to 7 or 8 per cent.

During the last days of December 1985, the central bank — aware, among other things, of its impending debt-servicing obligations, applied the brakes and ordered the commercial banks to place 20 per cent of their foreign currency holdings with it, and then slapped a 1 per cent tax on earnings from foreign currency deposits.

These moves — and an attempt to charge a 3 per cent commission on workers' remittances from abroad — led to considerable disorder in the markets in January and February, with bankers scrambling to buy hard currency. The difference between the rate that the central bank and the state banks on one side were trying to maintain, and the level that the commercial banks, following market forces, felt appropriate became glaring. By the second week in March, the central bank and the state banks were quoting a rate of around TL 880 to the pound, for instance, while the major commercial banks were offering around TL 945 to 950.

So on March 14 the central bank governor, Mr Yavuz Canevi, blew the whistle and restored order to the scene. The commission was abolished. Foreign currency reserve requirements were reduced to 15 per cent. But banks were once more forced to keep their rates pegged to within 1 per cent on either side of the central bank's daily rates for foreign currency. At the same time the lira slipped by 5.2 per cent against the dollar and slightly more against some European currencies.

The move sparked off a round of criticism in the banking world. Mr Sakip Sabanci, bead of the Sabanci group, whose Akbank is Turkey's star performer among the major commercial banks, rebuked speculators for unsettling the market. At the Imar Bank, Mr Kemal Uzan, retorted angrily to unspecified critics of his banks policies. Mr Uzan threatened legal action and the controversy subsided. Mr Canevi, bowever, bas come under fire in tbe Turkisb press."



Terry Kirk

Bank tower with mosque . . . an Istanbul landscape

TURKEY	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	4.1	4.5	3.4	5.9	4.5
Inflation (%)	36.6	30.8	32.9	48.4	42.1
Current Account Balance (US$m)	−1,919	−936	−1,898	−1,407	−1,200
Exchange Rate: Lira vs US$	111.22	162.55	225.46	366.68	521.98

"It would be a major mistake to replace Mr Canevi now," says one Turkish banker. "But there is evidently pressure from some circles for this."

Mr Canevi's critics are the larger banks, who feel—probably fairly—that the brakes were slammed on too sharply in December. But ultimate responsibility of this mistake may lie with the Government.

"I think that if one bas to point the finger at any one," says the banker, "the real culprit is probably the Treasury rather than the central bank. Old questions have revived about how independent the central bank is allowed to be in Turkey."

Concern about the banking system as a whole is currently focussed on the knot of questions around the March foreign exchange crisis. But most bankers believe that conditions have got mucb easier again.

One casualty of the crisis, bowever, bas been the interbank foreign currency market in Turkey.

"It went dead in March," says one foreign banker in Ankaro, "and there are no signs that it will revive in the immediate future."

At the end of the month, bowever, governor Canevi was able to get one of his own pet projects, a limited interbank market for Turkish liras. Until now, interbank lendiog in Turkey bas been strictly limited to small scale transactions between banks which have friendly relations.

Two major inhibitions have been the divide betweeo state banks (mostly in Ankara), whicb tended to be cash-rich, and the commercial banks in Istanbul; and also the rivalry between the major industrial group's owning the country's larger private banks.

The new system relies on the central bank acting as an intermediary, and uses Reuter's monitor screen to inform banks when funds are sought or available.

"It is a good idea," says Husnu Ozyegin, the general manager of the Yapi Ve Kredi Bankasi. "We intend to make regular use of it, though tbe foct that its first few days coincided with the end of the tax year probably meant that it got off to a slow start."

Ozyegin is in the forefront of Turkish banking executives in the private sector who are using new marketing and management techniques to transform the profitability of their operations. It is no secret that before be took over, two years ago, Yapi Ve Kredi was focing hard times, partly because of high labour costs during the 1970s and partly (like other Turkish banks) because of bad loan decisions around the same period.

Aggressive marketiog of Turkey's first major electronic banking system has put Yapi Ve Kredi Bankasi back in the black. "There is no doubt that Husnu is doing a very good job," says ooe of his rivals at a foreign bank. "Most of the secret is in the marketing. Their Tele-Islem (electronic banking service) really has turned the tide for them. It is interesting that marketing can play such a big role."

"Our sights are now on overtaking Akbank in the next few years," says another official at Yapi Ve Kredi.

With customer services among the Turkish banks still very poor—only limited cleariog services are available, and few deposit holders pay by cheque on consumer purchases—there ought to be scope for more competition between the high street banks in Turkey. But the outlook for the smaller banks is less certain.

It does not look as if 1986 will be a very profitable year for Turkish banks as a whole, and the 1985 balanee sheets expose the precarious nature of the operations of many of the smaller banks. There have been claims that many of them are only being kept alive through the acquiescence of the ceotral bank and the Government.

"Noo-performing loans appearing in the preseot balanre sheets," says one foreign banker "ought to be moltiplied by a coefficient of five in many cases to gauge their real situation. The position is more accurately reflected in the balance sheets of the state banks which are able to do less doctoring."

Year-end figures suggest that non-performing loans rose from TL 231.5bn in 1984 ($463m) to TL 325.165bn ($500m) at the end of 1985.

A staggering 60 per ceot of this declared figure—TL 190bn—belongs to the couotry's largest bank, the Ziraat (agriculture) Bank, followed at some remove by the Turkiye is Bankasi's TL 51bn.

The future of neither bank is jeopardised by these debts. They are the twin colossi of the Turkish banking world aod have born the bruot of the changes over the past few years, with Ziraat in particular being used by the central bank to take over the liabilities of insolvent banks in 1983-84. Eyes are on the small private banks.

At the moment, few Turkisb banks seem to be greatly concerned by the approach of the standardised accouoting system due to be introduced in 1987. But there seems little doubt that, in the second balf of the year, with the strains on the small banks unlikely to go away, attention will switch back from foreign currency operations to the question of the overall reform of the system.

David Barchard

Greece

Hoping the roof won't collapse

"THINK OF the Greek banking system as a house which you built to specifications a quarter-of-a-century ago, with the idea that it would keep you warm in winter and cool in summer.

"The design turned out to be faulty, but pulling it down and rebuilding it from scratcb would leave you homeless. So you close a window here and knock out a wall there, trying to correct the structure bit by bit, and boping the roof won't collapse over your head . . ."

The metaphor provided by one Greek banker, aptly describes the cautious but pioneering efforts being made by the Bank of Greece to modernise the country's largely state-controlled banking system, a mooument to misdirected government intervention and bureaucratic rigidity. About 80 per cent of the commercial bank market is covered by state-controlled banks. Five major and six minor Greek private banks and some 30 foreign banks make up the balance.

The banking system has traditionally been swaddled with a complex web of state-controlled interest rates and credit regulations. Originally intended to give the Government fine-tuned control over Greece's economic developmeot, mainly by favouring the financing of industry over commerce, the system ended up generating complex financial distortions and saddling banks with dozens of ailing industrial eoterprises, with non-performing debts of some Dr 350bn, most of which are on the books of the state commercial giant, the National Bank of Greece.

The final word on the fate of the so-called "problematic firms" is in the hands of the Government, which took over the management of about 40 enterprises with debts of about Dr 270bn three years ago. Continuing to finance these firms is a major strain and distortion on the banking system. Given that their closure would mean the loss of 10,000 jobs, however, the decisioo on their fate will bave to be largely political.

The Bank of Greece bas concentrated its modernisation efforts on rationalising the interest rate and credit rules structure. The former wide spread of over 100 lending rates has been refined to four basic rates, for working capilal, long-term investment, farming and housing.

Deposit rates were increased in 1984 in a bid to eliminate the problem of negalive real rates, relative to Greece's dooble-digit inflation — much bigher than the European Community average. Althougb about 75 per cent of commercial bank funds are still earmarked for selected types of economic activity, the Bank of Greece bas relinquished its case-by-case control of lending, and is encouraging banks to make their own portfolio decisions.

Not least, interest rates on Treasury bills have been raised substantially to discourage excessive borrowing by the public sector and—through marketable Treasury bills, now on offer to the public in another innovation—arrive at a less inflationary means of financing the public sector deficit.

Central bank officials say that the two main eoemies of the reform effort are negative interest rates relative to continuing high levels of inflatioo (approximately 26 per cent io 1985); and the accumulated bureaucratic inertia of the state banking system, which makes officials reluctant to take up even the relatively limited freedom now available to construct portfolios oo the basis of normal banking criteria.

Attempts to promote the use of cheques, little used io Greece, are, on the other hand, beiog resisted by the public, which still prefers to place its faith in cash.

At the same time, wbat has proved too much chaoge for most state banks is too little for private one.

"The day we stop rerelving dozens of telexs every 24 hours from the ceotral bank will be the day when Greece will have a banking system comparable with the rest of the EEC," ooe Greek banker said. "Gonsolidation of interest rates was a step in the right direction. But it must be followed up. In the meantime, 75 per cent of our deposits are still on reserve with the Baok of Greece."

In its January 1986 report on the Greek economy, the OECD points out that roughly half of total deposits with commercial banks are tied down to compulsory investment and loans to the public sector, and it calls for a sigoificant reduction.

The report recommends an early end to the further financing of "problematic" firms, commenting: "The economic, social and financial cost of subsidising indefinitely non-viable enlerprises is considerably higher in the medium and longer run than the short-term costs of abandoning non-profitable activities."

Direct government intervention in banking activities should be eliminated, the report suggests; smaller baoks sbould be encouraged, and a freer interest rate system established. Forward-looking Greek bankers couldn't agree more.

Andriana Ierodiaconou

GREECE	1981	1982	1983	1984	1985
Real GDP Growth (% from prev yr)	−0.3	−0.2	0 3	2.6	1.7
Inflation (%)	24.5	21.0	20.2	18 4	18.8
Current Account Balance (US$m)	−2408	−1892	−1878	−2132	−3300
Exchange Rate Drachmas vs US$	55.41	66.80	88.06	112.72	138.12
Trade Weighted Index (1971=100)	54.28	50.66	41.89	36.54	31.39
Real Trade Weigh. Ind. (1971=100)	108.31	108.89	102.22	101.22	99.18

FT writers profile five men who occupy key positions in different parts of the rapidly changing global game

Right man, right place, right time

Wolfgang Röller, chief executive, Dresdner Bank, West Germany
By Jonathan Carr

BUSTLE, BUSTLE—here comes Wolfgang Röller!

The "speaker" (in effect, chief executive) of the Dresdnar Bank, West Germany's second biggest bank, sweeps through the throng, nodding here, pumping a hand there.

For the Dresdner, Röller is the right man in the right place at the right time. He first worked at the Dresdner in the early 1950s to help earn his keep as a student, was fascinated by what he saw and later returned to the bank for good.

He is, and has long been, *the* key capital markets expert at the bank. Now aged 56, he was heading the stock market department in the early 1960s, prepared the ground for the Dresdner's brokerage and investment banking activities in the US—and played a decisive role *in the spectacular deal* of 1974, when the Dresdner arranged the disposal of the Quandt family's stake in Daimler-Benz to Kuwait.

An executive board member since 1971, Röller succeeded Friderichs in the top job at the start of last year. In other words, he moved in just as new steps were emerging to *liberalise the German capital* markets as part of the changes sweeping the financial scene worldwide. Röller's talents and particular experience suited the new challenge.

One of Röller's main aims is clearly to boost the international side of *Dresdner's* investment banking business.

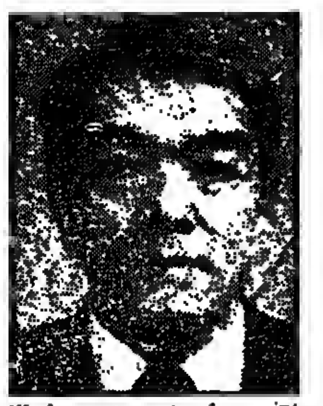
Current aims include establishment of a securities offshoot in Tokyo, where Dresdner last year became the first German company to have its shares listed *on the stock* exchange, and to boost its investment advisory and other merchant banking services in London — partly in collaboration with the Dresdner's US subsidiary, ABD.

Does that imply the Dresdner is at least half turning its back on Frankfurt as a major financial centre in favour of those abroad? *Certainly not — in* Röller's view.

He gladly welcomed the Bundesbank's moves last year, permitting innovative financial instruments like zero coupon bonds and floating rate notes in Germany. He has also been pressing hard for changes in the archaic structure of the West German stock market. But he is well aware that more needs to be done, and can be cutting about those who stand in the way of reform.

'We'll be part of global market'

Jiro Yamana, senior managing director and head of international division, Daiwa Securities, Tokyo
By Carla Rapoport



THE JAPANESE flow of funds overseas continues at a breakneck pace. Last year, Japan invested more than $54bn net abroad. This year the figure is estimated to top $75bn.

The largest funnellers of these funds are Japan's big four securities companies: Nomura, Daiwa, Nikko and Yamaichi. Business for all four is growing so quickly that few have had much time for reflection in recent months.

At Daiwa Securities, the aggressive number two among the four, there is at least one senior manager, however, who is able to take a longer look at the development of Japan's role in the international financial markets.

Jiro Yamana, a senior managing director, and head of Daiwa's international division, puts it this way: "No one can stop or divert this trend. The flow of capital from Japan will continue to increase and Japan will become part of an integrated global market."

"In terms of Daiwa's revenues, international sales now account for 30 per cent of gross revenues, compared with 10 per cent five years ago. In five years from now, these percentages will lose their relevance," he says, "because the market will be integrated. People will talk about electric stocks or consumer stocks, not Japan or UK or US."

Yamana who spent four years in London and ten years in New York, is critical about what he says is the relatively slow pace of deregulation in Japan.

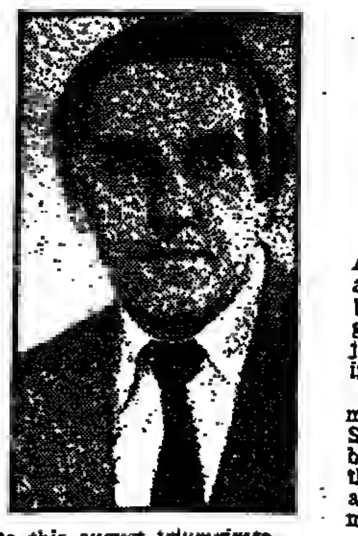
Cumbersome procedures, taxes and duties, he says, still discourage domestic and foreign companies from raising money in Japan. "If Tokyo wants to be competitive, it must have a competitive regulatory environment rather than stopping the flow artificially for patriotic reasons."

As far as Daiwa is concerned, Yamana's main headache is personnel. "Our expansion is going faster than our training programme can provide. *In order to find good* people, we are intensifying our recruiting efforts here and abroad," he says. And training *is going* on at all levels. "International cannot be just one department, it has to be the whole group."

Now 53, Yamana answers the question of how many hours he works by stating how much he sleeps — six or seven hours a day. "The rest of the time I'm working. But this is a young person's business. I'm lucky to be in it at this time."

Both a democrat and a liberal

Kurt Schiltknecht, head of management committee, Nordfinanz-Bank, Zurich
By John Wicks



"SWISS BANKS are faced with increasingly tough competition. *As other financial* centres come to vie with Switzerland in such advantages as low inflation and economic stability, performance is becoming more and more of a decisive factor. Our banks have always been good at importing knowhow—if we want *to retain* our independence we must now develop more of our own."

This call comes from Professor Kurt Schiltknecht, head of the management committee of Nordfinanz-Bank, in Zurich. His view of the financial sector is based on an unusual breadth of professional experience. His initial background is academic: after studies at Zurich University, he was engaged in macro-economic research at the Federal Polytechnic in the same city, the OECD in Paris, and at the Wharton School in America.

Prof Schiltknecht, who still lectures at Basle University, joined the Swiss National Bank in 1974, and subsequently became chief economist. He left his mark there, particularly as a creator of Switzerland's successful money-supply policy. Before he crossed the Bahnhofstrasse, to the Finnish-controlled Nordfinanz-Bank, where he took over the reins at the start of this year, he had been promoted to the specially-created post of "economic adviser to the governing board" with a consultative vote at board meetings. In one other respect, too, Prof Schiltknecht is hardly the typical Swiss banker. His political sympathies lie to the left and not to the right-of-centre. While he says his social democratic leanings were *not* the determining factor they were generally seen as when, in 1984, he was passed over for *election to the National Bank's* governing board, it would have been the first time in history that a social democrat belonged to this august triumvirate.

At the same time, he is far from being a left-winger. "I am something of a split personality—an extreme democrat in politics and an extremely liberal economist," says Prof Schiltknecht. His highly market-oriented theories made him an outsider when he served in the Social Democrats' Economic Commission, quite apart *from his opposing the* party's 1984 "Banning Motion."

He certainly needed no Paul-to-Saul conversion when he crossed the road to Nordfinanz-Bank. He had already enjoyed a good relationship with bankers when he was with the monetary authority, where he was a champion of regulatory liberalisation.

Indeed, he feels today that the Government should stand up for the banking community a bit more. "We let ourselves be pushed into too much of a defensive position," claims the academic-cum-banker, who objects to outside pressure leading to official measures not in keeping with Swiss law. "We ought to show a little more courage."

Prof Schiltknecht is far from wanting to see Switzerland as an open house for fugitive funds from abroad, and stresses that banks must do all they can to identify incoming assets. The current "good-conduct code" could well, albeit in a simplified form, be incorporated in the new Banking Act, he says.

But even serious screening of client funds would not keep all the undesirable money out: "Swiss banks have so many customers that some of them are bound to be undesirable. This is the same wherever there is a *major concentration of money*—but it seems to be considered particularly reprehensible in the case of Switzerland."

A realist in his glass tower

David Lovejoy, head of Security Pacific merchant banking group, Los Angeles
By David Lascelles

AS THIS is Los Angeles, they are making a movie in the street below. But high in his shining glass skyscraper, David Lovejoy is not a man who indulges in much fantasy.

Aged 38, he is head of the merchant banking group of Security Pacific, the California bank which has been close to the forefront of changes that are forcing banks to become more involved in the securities markets.

"Trading is the staple of this business," he said. The keys to success, according to Mr Lovejoy, are the ability to help clients raise money by distributing their securities around the world, vigorous marketing, and a readiness to invest heavily in the latest technology.

Unless banks do this, he believes, they will lose their most creditworthy customers to the growing trend of securitisation.

The group he heads was formed last summer to pull together those parts of Sec Pac that are engaged in merchant banking, especially on the securities and corporate finance side. It also includes the bank's treasury function (which he formerly headed) so that all Sec Pac's dealings in the financial markets are combined.

Through its ownership of Hoare Govett, the London stockbroking firm, Sec Pac will participate in the Big Bang and become a primary dealer in gilts. "We're not just looking at gilts, but at Bulldog bonds, and possibly the new corporate bond market [illegible]. There is big scope for further securitisation [illegible] for instance in mortgages [illegible] loans [illegible]."

Hoare's also has [illegible] to deal in securities in Tokyo, which gives Sec Pac an indirect entree to that market [illegible] will remain [illegible] from the mainstream [illegible] of its special character, he believes. "Even so, [illegible] wake up in the morning you had better know what happened overnight in Tokyo."

As Sec Pac develops this side of its business, the traditional banking operations will decline in importance, possibly to only 50 per cent of the group's activities. Even so, Mr Lovejoy says that the ability to offer conventional banking products, particularly loans, will give commercial banks a useful competitive edge over the investment and securities houses.

Back in town as a vice-president

Ron Reading, senior vice-president and head of trading and securities, Chase Manhattan, London
By David Lascelles

THE LAST time Ron Reading did a tour for Chase Manhattan in London, from 1979 to 1982, he helped expand the bank's dealing room from 40 to 90 positions. Three years later, at the age of 40, he is back, as a senior vice president and head of trading and securities—and the room is being enlarged yet again to 329 positions, bigger even than Chase's 200-position dealing room in New York.

What started some years ago as a small dealing operation in a corner of one floor of Chase's branch in Woolgate House, Coleman Street, will by this summer have grown to occupy the entire floor.

That, he says, shows just what the Big Bang is doing to the bank, which is the US' third largest. Mr Reading himself has been occupying a makeshift office in a closed-off lift shaft while the workmen are in.

Nearly two-thirds of the new positions will be occupied by dealers from Simon and Coates and Laurie Milbank, the two stockbroking firms Chase is buying to join in the City revolution. Altogether the new operation, which is due to move in on August 4, will make markets in 400 UK equities, as well as gilts, Eurobonds, foreign exchange and foreign securities.

"The markets are so international now that you need everyone sitting on top of each other to exchange all the information," says Reading.

The challenge of Big Bang for Chase, as with other US banks, is that it pushes the London operation well ahead of New York (where corporate securities dealing is still barred to banks by the Glass-Steagall Act), and into new territory. This means that, while Mr Reading and his crew feel confident about what they are doing, the people at *headquarters need to have* unfamiliar things explained to them.

It also calls for a certain caution, *and careful handling* of the cultural differences. Salaries are "astronomical," Mr Reading says, and Chase has suffered its share *of defections* by dealers to rival firms. "But we did not spend a lot of time anguishing over whether we have to do this. We are not going to mess about and miss the chance."

Although competition in the new markets will be tough, he says, Chase aims to go for steady profits rather than big killings in the market. "There will not be massive speculation. We aim to make a little bit every day."

He points to Chase's record in foreign exchange, where it earned $173m last year, with most trading days returning at least 80 per cent of the average daily profit.